FAIR PRACTICES IN AUTOMOTIVE PRODUCTS ACT

HEARINGS

BEFORE THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 2300

TO ESTABLISH DOMESTIC CONTENT REQUIREMENTS FOR MOTOR VEHICLES SOLD IN THE UNITED STATES, AND FOR OTHER PURPOSES

DECEMBER 16 AND 17, 1982

Serial No. 97-142

Printed for the use of the
Committee on Commerce, Science, and Transportation

U.S. GOVERNMENT PRINTING OFFICE
14-589 O WASHINGTON : 1982

S261-18

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FAIR PRACTICES IN AUTOMOTIVE PRODUCTS ACT

THURSDAY, DECEMBER 16, 1982

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, D.C.

The committee met, pursuant to notice, at 9:03 a.m., in room 235, Russell Senate Office Building, Hon. Bob Packwood (chairman of the committee) presiding.

Staff members assigned to these hearings: Frank J. Cantrel, Jr., Lawrence R. Fullerton, and Karen L. Borlaug, staff counsels; and Loretta L. Dunn, minority staff counsel.

OPENING STATEMENT BY THE CHAIRMAN

The CHAIRMAN. The committee will come to order, please. We start hearings today on S. 2300, the domestic content bill, which is perhaps as far-reaching and significant a piece of legislation as this committee has considered in a long time. Some 20 years ago, or perhaps as recently as 5 or 10 years ago, this type of legislation would have been regarded by Congress as both alien and dangerous to this country. Because of the extraordinary and difficult times we are going through in the auto industry, to which this legislation is addressed, and in many other industries, this kind of legislation has come to be commonplace.

I have misgivings about starting down the road toward protectionism, and this legislation is indeed protectionist. But a fair case can be made for it and this committee will consider it with the seriousness and the respect to which it is entitled.

[The bill follows:]

97TH CONGRESS
2D SESSION

S. 2300

To establish domestic content requirements for motor vehicles sold in the United States, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 30 (legislative day, FEBRUARY 22), 1982

Mr. FORD (for himself, Mr. LEVIN, Mr. RIEGLE, Mr. MELCHER, Mr. LUGAR, Mr. HUDDLESTON, Mr. METZENBAUM, Mr. EAGLETON, and Mr. KENNEDY) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

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A BILL

To establish domestic content requirements for motor vehicles sold in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Fair Practices in Automotive Products Act".

SEC. 2. DEFINITIONS.

As used in this Act—

(1) The term "automotive products" means motor vehicles and parts for motor vehicles.

(2) The term "domestic part" means any material or part used in manufacture of a motor vehicle if such material or part is produced in the United States.

(3) The term "added domestic value" means—

(A) the value of the labor and of the domestic parts used by a vehicle manufacturer in the production of automotive products in the United States that are, during a model year, either sold by that manufacturer in the United States or exported by that manufacturer to foreign countries other than Canada; plus

(B) the lesser of—

(i) the value of the labor and of the domestic parts used by that manufacturer in the production of automotive products in Canada that are sold by that manufacturer during such model year in the United States, or

(ii) the value of the labor and of the domestic parts used by that manufacturer in the production of automotive products in the United States that are exported by that manufacturer to Canada during such model year.

(4) The term "domestic content ratio" means, with respect to a vehicle manufacturer for any model

year, the percentage determined by multiplying by one hundred the factor obtained by dividing the added domestic value determined for that manufacturer for that model year under paragraph (3) by the aggregate of the production costs of all automotive products sold by that manufacturer in the United States during that model year. For purposes of the preceding sentence, the production cost of an automotive product is the wholesale price to dealers in the United States for that product as set forth in the vehicle manufacturer's official dealer price list that is in effect at the time the product is sold at wholesale.

(5) The term "model year" means a vehicle manufacturer's annual production period (as determined by the Secretary) which includes January 1 of a calendar year, or if a vehicle manufacturer does not have an annual production period, the calendar year. A model year shall be designated by the year in which January 1 occurs.

(6) The term "motor vehicle" means—

(A) any on-the-highway, four-wheeled or three-wheeled, passenger automobile; and

(B) any automobile truck having a gross vehicle weight of less than ten thousand pounds.

(7) The term "parts manufacturer" means a person engaged in the business of producing parts for motor vehicles.

(8) The term "Secretary" means the Secretary of Transportation.

(9) The term "vehicle manufacturer" means any person engaged in the business of producing motor vehicles for ultimate retail sale in the United States and includes as one entity all persons who control, are controlled by, or are in common control with, such person. The Secretary shall prescribe rules for determining, in such case in which—

(A) more than one person is the manufacturer of a make of motor vehicle, which person is to be treated as the vehicle manufacturer of such make for purposes of title I; and

(B) two vehicle manufacturers in joint venture produce motor vehicles in the United States, the allocation of such vehicles among those manufacturers for the purposes of title I.

Such term also includes any predecessor or successor of such a vehicle manufacturer to the extent provided under rules which the Secretary shall prescribe.

TITLE I—DOMESTIC CONTENT REQUIREMENTS FOR MOTOR VEHICLES

SEC. 101. CONTENT RATIOS FOR MODEL YEAR 1982 AND THEREAFTER.

For each model year beginning after June 30, 1982, the minimum domestic content ratio for a vehicle manufacturer shall not be less than that specified in the following table:

Number of motor vehicles sold by manufacturer in the United States during such year:	Minimum domestic content ratio: Percent
Model year 1983	
Not over 100,000	0
Over 100,000 but not over 150,000	8.3
Over 150,000 but not over 200,000	16.7
Over 200,000 but not over 500,000	25
Over 500,000	30
Model year 1984	
Not over 100,000	0
Over 100,000 but not over 150,000	16.7
Over 150,000 but not over 200,000	33.3
Over 200,000 but not over 500,000	50
Over 500,000	60
Each model year after model year 1984	
Not over 100,000	0
Over 100,000 but not over 150,000	25
Over 150,000 but not over 200,000	50
Over 200,000 but not over 500,000	75
Over 500,000	90

SEC. 102. REPORTING REQUIREMENTS.

(a) IN GENERAL.—Each vehicle manufacturer that produces more than fifty thousand motor vehicles for sale in the United States during any model year after model year 1981 must provide such information to the Secretary regarding the production and sale of motor vehicles and automotive parts as the Secretary shall require for the purpose of administering this title.

(b) CONFIDENTIALITY OF INFORMATION.—All information submitted to the Secretary by a vehicle manufacturer in compliance with subsection (a) shall be confidential and shall not be disclosed except when required under court order. The Secretary shall, by regulation, prescribe such confidentiality, except that—

(1) the Secretary may release or make public any such information in any aggregate or summary statistical form which does not directly or indirectly disclose the identity or business operations of the manufacturer who submitted the information; and

(2) the Secretary shall release upon request any such information to the Congress or any committee thereof.

(c) ANNUAL REPORT.—As soon as practicable after the close of each model year after June 30, 1982, the Secretary shall prepare and make available to the public a report setting forth the domestic content ratio achieved by each vehicle manufacturer during such model year.

SEC. 103. RULES AND REGULATIONS.

The Secretary shall prescribe such rules and regulations as are necessary or appropriate to carry out the provisions of this title.

SEC. 104. PROHIBITED ACTS AND SANCTIONS.

(a) PROHIBITED ACTS.—It is unlawful for any vehicle manufacturer to violate any provision of this title or any rule or regulation issued pursuant to this title.

(b) SANCTIONS.—(1) If the Secretary finds, after notice and an opportunity for a hearing in accordance with section 554 of title 5, United States Code, that a vehicle manufacturer has knowingly committed an act prohibited by subsection (a)—

(A) the number of motor vehicles that may, during the model year after the model year in which such violation occurred, be entered by, or on behalf of, the manufacturer concerned may not exceed 75 per centum of the number of motor vehicles that were entered by, or on behalf of, that manufacturer during the model year in which such violation occurred; and

(B) the parts for motor vehicles that may be entered by, or on behalf of, the manufacturer concerned during the model year after the model year in which such violation occurred may not exceed in aggregate dutiable value an amount equal to 75 per centum of the aggregate dutiable value of parts for motor vehicles that were entered by, or on behalf of, that manufacturer during the model year in which such violation occurred.

(2) The Secretary shall determine, and certify to the Commissioner of Customs, the number of motor vehicles and the aggregate dutiable value of parts that may be entered during any year by, or on behalf of, a vehicle manufacturer to which paragraph (1) applies.

(3) For purposes of paragraphs (1) and (2), the term "entered" means entered, or withdrawn from warehouse for consumption, in the customs territory of the United States.

(4) Any vehicle manufacturer against whom import restrictions are imposed under paragraph (1) may obtain review thereof in the appropriate court of the United States by filing a notice of appeal in such court within thirty days from the date of such order and by simultaneously sending a copy of such notice by certified mail to the Secretary. The Secretary shall promptly file in such court a certified copy of the record upon which such violation or import restriction was found, as provided in section 2112 of title 28, United States Code. The findings and order of the Secretary shall be set aside by such court if they are not found to be supported by substantial evidence, as provided in section 706(2) of title 5, United States Code.

TITLE II—UNFAIR ACTIONS AFFECTING DOMESTIC PARTS MANUFACTURERS

SEC. 201. UNFAIR ACTIONS AFFECTING DOMESTIC PARTS MANUFACTURERS.

(a) Prohibited Acts.—It is unlawful for a vehicle manufacturer to fail to carry out the following actions:

(1) To undertake prompt action, after requested to do so by a parts manufacturer—

(A) to determine whether parts produced in the United States by the parts manufacturer satisfy reasonable standards established by the vehicle manufacturer for use as replacement parts for motor vehicles produced by that vehicle manufacturer, and

(B) if the determination described in subparagraph (A) is affirmative, to notify its affiliated dealers of the determination; or

(2) To furnish a letter, after requested to do so by such parts manufacturer, stating that the parts manufacturer shall assume liability for all damages that may result from the use by consumers of parts made by the parts manufacturer as replacement parts in motor vehicles produced by that vehicle manufacturer.

(b) Civil Penalty.—(1) Any manufacturer who is found by the Secretary, after notice and an opportunity for a hearing in accordance with section 554 of title 5, United States Code, to have committed an act prohibited by subsection (a) shall be liable to the United States for a civil penalty. The amount of the civil penalty shall not exceed $5,000 for each violation. Each day of a continuing violation shall constitute a separate offense. The amount of such civil penalty shall be assessed by the Secretary, or his designee, by written notice. In determining the amount of such penalty, the Secretary shall take into account the nature, circumstances, extent, and gravity of the prohibited acts committed and, with respect to the violator, the degree of culpability, any history of prior offenses, and such other matters as justice may require.

(2) Any manufacturer against whom a civil penalty is assessed under paragraph (1) may obtain review thereof in the appropriate court of the United States by filing a notice of appeal in such court within thirty days from the date of such order and by simultaneously sending a copy of such notice by certified mail to the Secretary. The Secretary shall promptly file in such court a certified copy of the record upon which such violation was found or such penalty imposed, as provided in section 2112 of title 28, United States Code. The findings and order of the Secretary shall be set aside by such court if they are not found to be supported by substantial

evidence, as provided in section 706(2) of title 5, United States Code.

(3) If any manufacturer fails to pay an assessment of a civil penalty after it has become a final and unappealable order, or after the appropriate court has entered final judgment in favor of the Secretary, the Secretary shall refer the matter to the Attorney General of the United States, who shall recover the amount assessed in any appropriate district court of the United States. In such action, the validity and appropriateness of the final order imposing the civil penalty shall not be subject to review.

(4) The Secretary may compromise, modify, or remit, with or without conditions, any civil penalty which is subject to imposition or which has been imposed under this subsection.

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The CHAIRMAN. Senator Ford?

OPENING STATEMENT BY SENATOR FORD

Senator FORD. Thank you, Mr. Chairman, for responding to my June 1 request for hearings to be held on this legislation. I look forward to working with you and my colleagues on this bill.

At the start let me raise one critical question that I hope the committee will keep in mind as we take a detailed look at the legislation now before us. How much longer can the United States afford to allow our trading partners to continue to take advantage of us?

We have the most open market in the world. We go the extra mile in encouraging free trade. Yet, there is a glaring lack of reciprocity from many of our major trading partners that can no longer be ignored.

Just look at what happened last month at the GATT ministerial conference in Geneva. We barely won approval from the European Community on a study, a simple study on subsidies for agricultural goods. Special Trade Negotiator Block, who worked extremely hard to crack the impasse that prevailed, said he would give the conference a grade of C.

Despite his heroic efforts, in my judgment the conference was a dismal failure and provided further evidence that this country must move on its own if we are to persuade the world to open the door or to trade and let us get our foot in that door. The Japanese, though pious enough in their declarations of desire for free trade, have one of the most fiercely protected markets in the world.

Last year the Japanese sold almost 1.7 million automobiles in the United States. We sold less than 20,000 cars in Japan. What about American beef? We have trouble selling that, too. Out of 615,000 metric tons of beef sold last year in Japan, America's share of the market was a paltry 38,000 metric tons. The reason that we cannot sell more beef is that we operate under quotas that have been in existence since World War II. There are tariffs of 25 percent on top of that, and certain other imports are subject to additional surcharges.

We just sit back and watch it happen. We sell only 4.98 million cigarettes in Japan. The rest of the 313 million cigarettes are sold by the Japan Salt and Tobacco Corp., a government-owned monopoly which restricts the number of outlets where American cigarettes can be sold. I might add, Mr. Chairman, we are also having difficulties selling baseball bats, the Louisville Slugger.

Needless to say, I do not feel American business is getting a fair shake. We need to do something to impress upon the Japanese how serious we view the present situation. We have been negotiating for freer access for years. We have gone through normal channels. We have nothing to show for it.

Unfortunately, I have come to believe—and I say unfortunately—the only option left for us to consider now is to fight fire with fire. This year the United States is facing a $20 billion trade deficit with Japan, up from $16 billion the year before.

Most of that deficit is in the area of automotive vehicles and parts. Meanwhile, hundreds of thousands of American auto workers are out of jobs. What this says to me in simplest terms is that our country is subsidizing the economy of another at the expense of our own, and I think it is time for it to stop.

I want to see this country look out for its own and its welfare for a change, at least to the extent that our present policy has benefited other countries. How much longer do we wait? How many more people must lose their jobs before we act? Free trade is a fine-sounding slogan, but it does not put bread on the table for an unemployed auto worker in Louisville or Detroit. How much longer must our people pay the price for our blind obedience to the principle of free trade, when this principle has so little apparent meaning to our trading partners? We need free trade, but we also need fair trade. So far that is a concept alien to some foreign countries. They are all for opening markets except when it concerns their own.

Clearly, it is time that the U.S. Government said to countries who carry attitudes such as this that if you want to sell your products here, then you must play by the same rules.

I might point out that this legislation does not mandate requirements that are either impossible or unrealistic. Some of the major foreign manufacturers already are doing on a smaller scale what this bill would require. So, we should not say that it cannot be done, because if it was not possible or even palatable foreign automakers such as Volkswagen, Honda, Toyota, and Nissan would not be here now, either actually producing vehicles or making plans to initiate production.

Later in these hearings I am certain we will hear arguments that protectionism in any form is not in this country's best interest. I do not understand logic such as this. If it is acceptable for others to impose restrictions on us, why is it wrong for us to require reciprocity?

Those who oppose this legislation, and I can see from the witness list they are well represented, must try to explain why our rules governing imports should not offer the same protections for our industries that other countries demand. They must also try to explain what is wrong with this country looking out for its own interests for a change. The answers to these and other relevant questions cannot be avoided if these hearings are to serve a useful and productive purpose.

I thank the chairman for allowing me the time to make the statement.

The **CHAIRMAN**. Senator Riegle?

OPENING STATEMENT BY SENATOR RIEGLE

Senator **RIEGLE**. Thank you, Mr. Chairman.

Let me say from the outset that I commend the Senator from Kentucky on the excellent statement he made, and he really laid it out just as it is. Let me say to you, Mr. Chairman, how much I appreciate your initiative in calling these hearings. I think it essential that these issues be addressed in this forum, and I applaud you for taking the lead in making this hearing possible.

Let me also say I think it took some courage the other day to be the lone person on your side of the aisle to support a more ambitious jobs program on the Senate floor. Those acts of independence and courage are rare around this place from either party, and I commend the Senator for that vote and for his position over a long period of time.

I also want to welcome my colleague from Michigan, who is the first witness at the table, and we will be anxious to hear what he has to say shortly.

Mr. Chairman, these hearings address a dangerous industrial crisis facing this Nation. There is in fact a worldwide economic war going on at the present time, and the United States is losing that war. This is one of the reasons that as we meet we have well over 12 million Americans out of work, no prospect of finding jobs any time soon, and the situation is worsening.

The dimension of the American recession and the collapse of our economy is now threatening to pull down the world economy. So, these issues are the most important issues to face our country, and we have to deal with them and we have to deal with them directly and as they are.

I want to commend the House of Representatives yesterday for taking up the issue, and the fact that the domestic content legislation passed in the lameduck session with over 80 Members of the Congress in the House being Members who will leave the Congress and therefore will not be part of the new Congress, I think that that vote is even more significant.

I am confident that when the new Members of Congress arrive who were elected, we will see a stronger majority for a domestic content law. If one looks at the public opinion polls, the Gallup poll, the Harris poll and others, there is a clear and strong majority of the American people who support domestic content laws, who think the time has come for major high-value products like automobiles, that those cars that are sold here in the United States ought to be produced here by our workers and built with our parts. And I strongly support that thinking.

If we are going to preserve our living standard over the period of years ahead as we have enjoyed in the past, this step will have to be taken. I am confident it will be taken. It is just really a matter of when it is done, not whether it will be done.

For 3 long years now, the U.S. auto industry has been hit by a devastating combination of high interest rates, lingering recession bordering on depression, and rising Japanese imports. The Japanese attack on our auto industry threatens the entire industrial base, because auto manufacturing is the end product of many of our industries, including steel, rubber, glass, textiles, and others.

The trade problem is not going away. In fact, it is getting worse. Auto layoffs have risen now for 20 consecutive weeks, to 262,000 Americans. In addition, there have been 38,000 white-collar auto industry jobs that have also been lost. If we take into account the related industries, the auto crisis has thrown at least 1 million Americans out of work. Thousands of U.S. businesses have also been damaged or destroyed in the process. Car manufacturers and suppliers have had to cut hundreds of millions of dollars from plans to improve production processes and develop new products.

There is a growing realization that basic American industries may not fully participate in any rebound in demand for autos because of the Japanese trade invasion. Let me describe this invasion wave by wave. In 1978, the Japanese sold 1.3 million cars in this country, which was an 11.7 percent market share. In 1979 that number grew to 1.7 million cars, a 16.1 percent market share. The next year, in 1980, they gained over 21 percent of our market selling 1.9 million of their cars in this country.

Last year their share of our market grew to 21.2 percent and they sold another 1.8 million cars here. But this year projections show that the Japanese automakers will capture 22.5 percent of the domestic auto market. That means we can expect another 1.8 million Japanese cars to be sold here this year.

These numbers are or soon will be history, but a look into the future shows further damage on the way unless we take strong action now. According to Merrill Lynch, foreign automakers will capture 40 percent of our market by the year 1990. Chase Econometric says they will own a 36-percent market share, and the National Academy of Engineers projects that foreign manufacturers could take up to 65 percent of the American market by the end of this decade. This, I think, illustrates the emergency situation facing our autoworkers, our automakers, and our domestic economy.

Let me point out another little-known fact regarding the Japanese automakers. They have shifted in their model mix to more luxury models, so that their U.S. profits have increased at a higher rate than their unit sales. They are targeting precisely those American consumers who will lead any recovery in auto demand over the next year or so.

Their nearly doubling share of the domestic auto market is occurring in the face of the supposed voluntary import limit set by the Japanese automakers themselves. Clearly, that is an ineffective device.

As a result of this invasion of Japanese cars, the U.S. auto trade deficit with Japan rose to an annual level of $13 billion in the first two quarters of this year. Bear in mind, this financial outflow provides Japanese companies with a huge industrial war chest with which to challenge our competitiveness for years to come in whatever fields they may choose.

U.S. debate on this problem has tended to be sidetracked into sterile arguments about free trade or protectionism. One of the latter reactions invokes a violation of GATT charge. This legalistic argument has long been used by American officials who do not want the Congress to take any firm action and who are unprepared to take firm action themselves.

None of the other 30 countries with auto content rules have ever been challenged under GATT rules. GATT procedures would require Japan to try to iron out difficulties with the United States before filing a formal complaint. If Japan were to file a complaint, we could file countercharges against the Japanese complicity in auto restraint policies in Europe, in Australia, Indonesia, and Latin America.

Rather than resort to GATT protests in countries where import restrictions have been set, Japan has instead invested in many of these countries. Once they have begun to comply in earnest with these domestic content restrictions, Japanese companies have discouraged their government from pursuing a GATT complaint.

So that the record shows clearly that it is not practical for the Japanese to go the GATT route, and their past practices bear that out and that is a false and phoney issue, and every time it is brought up it should be exploded for what it is. It is an empty threat and it is just invalid.

All of this furor over a trade war, which I say is occurring now and we are losing, or GATT violations is, however, missing the major point, which is that Japan, unless the United States, has a shrewd and effective strategy for encouraging stable growth in their employment base. Auto exports are a key element of that strategy.

Here in this country, we are standing by watching our auto industry suffer from this trade invasion, while other nations have taken strong and effective action to help their countries and their people. France last year, for example, cut Japanese penetration of their market back to 2.5 percent, 2.5-percent market share in France. Italy does not permit more than 2,200 autos a year to enter its market from Japan. Germany limits the Japanese to approximately 10 percent of its market. And in the United Kingdom, where Prime Minister Margaret Thatcher shares some of the same economic thinking of our administration, they have limited the Japanese to about 10 to 11 percent of the British market and have further forced the Japanese to build trucks there.

Do you know what happened? When those restraints were laid down, the Japanese responded favorably to them and have accepted them and they have not challenged them. And every one of those countries is stronger for having taken that action.

The only major country that is left of any consequence with any market share is this country, and I think this administration shows literally no comprehension of this problem, an absence of comprehension. In contrast to these actions, while we have been doing virtually nothing in this country to deal with this share penetration problem, the Japanese have doubled their market share in the last 5 years.

We have no comparable strategy in this country to strengthen our industrial base. If this Japanese initiative is allowed to go on as it has been going on, it is going to destroy a major part of our economy and I think further lower the U.S. standard of living. There is no other industrial country that would expose its employment base to such a threat.

But this administration, as I say, remains blind to the trade degradation taking place. At times, administration officials try to talk tough, to try to encourage the Japanese to open their market as we do, as if sales of American oranges, beef, and tobacco could somehow make up for the collapse of employment in our core manufacturing industries. At other times administration officials have stood by and let the Japanese take credit for auto export restraints that actually permit record levels in the Japanese share of U.S. auto sales. As I mentioned earlier, these so-called voluntary restraints have so far given the Japanese well over 20 percent of our market share at the present time.

Now, this legislation we have before us, the Fair Practices in Automotive Products Act, known as the domestic content or local content bill, is the only legislation before the Congress that squarely addresses the need to strengthen our industrial base and promises to put many American workers back on the job. All companies with annual sales here of over 100,000 vehicles will be required to locate some production here, hire some workers here, and buy their parts here in America.

By 1985, the domestic content bill would set the following requirements for American-built content: There would be a 50-percent local content requirement for firms selling 150,000 to 200,000 automobiles in this country in a year. There would be a 75-percent local content for firms that sell from 200,000 to 500,000 cars per year in this country. And finally, there would be a 90-percent local content for firms selling over half a million cars in the United States in a given year.

This legislation would clearly establish the principle that companies who sell a large number of cars to Americans would also help create jobs for Americans and buying power for Americans. Domestic content gets to the fundamental question of fairness in international trade, and there is very little of it there today.

Despite our historic economic strength, America now cannot allow a trading ally to exploit a short-term situation in the world economy at our expense and threaten to destroy part of the heart of our national economy. This legislation simply recognizes practical realities of international trade, and the hard truth is that the Japanese and others will continue to act entirely in their own self-interest.

My colleague from Kentucky has mentioned earlier some of the restraints that are thrown up that bar American products from going into the Japanese markets. He mentioned Louisville baseball bats and tobacco products, where until recently the advertisements for American products into Japan had to be broadcast on television and the radio in English, to make it more difficult for us to get any kind of a fair market share in Japan.

But it is far worse in cars. Now today we can find midsized American cars that are forced to be twice as expensive and in some cases four times as expensive in Japan by all types of gimmicks imposed by the Japanese Government and the Japanese system. As a matter of fact, if a dealer in the United States wants to set up a dealership in Japan to sell cars, as Japanese companies do in this country, they are forbidden to do so. They cannot do that in their own right and we cannot merchandise cars.

We are losing $13 billion in the process, and this country is going down the drain because this is happening. It makes no sense. It makes no sense from the point of view of preserving our living standard, of maintaining the industrial base of our national security interest. It is unfair and it is unsound.

There is not a single other country in the world that is allowing this to go on. We are the last ones, and we are the only ones that I think have been unrealistic and have been sluggish in responding to an enormous threat to our national security. And to me it is just one more irony of the fact that here in the United States we are providing the bulk of the free world defense system with our money, coming out of our economy, taken out of the civilian side of our standard of living to provide a defense shield for the free world and very particularly for Japan.

We cannot continue to afford to do that if at the same time our domestic economy is being devastated by unfair trade practices, by predatory nations, and I put Japan at the top of the list.

So in conclusion, I think it is time to put aside the false notions about GATT complaints, about commodity taxes or tariffs and what our role should be in the world economy. What we need to talk about is jobs, economic recovery in the United States, worldwide economic recovery. And it is time that we cracked down on these unfair rules.

This is a sound and realistic way to accomplish this. We can phase it in over a period of time and this legislation would keep over 1 million jobs, including 200,000 auto jobs and 500,000 supplier jobs. These are jobs that we are not going to have in this country if this current import invasion continues. We can put that many people to work in the months and years ahead if we pass this legislation, and it is time to do it. It is time that we put this country first, and we are not going to be able to see the rest of the free world take the kinds of forward positions that they need to take unless we get our economy squared away here, and this lies right at the heart of that requirement.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Riegle, for your gracious statements.

Senator RIEGLE. Could I ask unanimous consent to insert in the record a list of other countries around the world who have either local content requirements or tariff barriers of one sort or another that restrict access into their markets? It is a near-complete list of all of the countries of the world, but I think we ought to have that as a measure of what reality is out there.

The CHAIRMAN. Without objection.

[The information referred to follows:]

APPENDIX I—SURVEY OF AUTOMOTIVE TRADE RESTRICTIONS MAINTAINED BY SELECTED NATIONS

Compiled by the Office of International Sectoral Policy, U.S. Department of Commerce from information supplied by U.S. Embassies, Commerce country analysts, and industry sources. The accuracy of the information received has not been verified.

Summary of Foreign Automobile Trade Restrictions 1/

Country	Local Content Requirements	Import Restrictions 2/	Export Requirements	Operations	
				Japanese	United States
Algeria	No	Yes	No		
Argentina	Yes	Yes	Yes	Yes	Yes
Australia	Yes	Yes	No	Yes	Yes
Austria	No	Yes	No		Yes
Belgium	No	Yes	No		Yes
Bolivia	Yes	Yes	No		
Brazil	Yes	Yes	Yes	Yes	Yes
Chile	Yes	Yes	Yes		Yes
Colombia	Yes	Yes	Yes		Yes
Denmark	No	No	No		
Ecuador	No	Yes	No		Yes
Egypt	Yes	Yes	No		
France	No	Yes	No		
Germany	No	No	No		Yes
Ghana	No	Yes	No		Yes
Greece	Yes	Yes	No	Yes	
India	Yes	Yes	No		
Indonesia	Yes	Yes	No	Yes	Yes
Israel	No	Yes	No		Yes
Italy	No	Yes	No		
Japan	No	No	No		Yes
Kenya	No	Yes	Yes	Yes	Yes
Kuwait	No	No	No		
Malaysia	Yes	Yes	NA		
Mexico	Yes	Yes	Yes	Yes	Yes
Morocco	Yes	Yes	No		Yes
Netherlands	No	No	No		
New Zealand	No	Yes	No	Yes	Yes
Nigeria	Yes	Yes	No		
Norway	No	Yes	No		
Pakistan	Yes	Yes	Yes		Yes
Peru	Yes	Yes	No	Yes	Yes
Philippines	Yes	Yes	Yes	Yes	Yes
Protugal	Yes	Yes	No	Yes	Yes
Saudi Arabia	No	No	No		
Singapore	No	Yes	No	Yes	Yes
South Africa	Yes	Yes	No	Yes	Yes
South Korea	Yes	Yes	Yes		
Spain	Yes	Yes	No		
Sweden	No	No	No		
Switzerland	No	No	No		
Taiwan	Yes	Yes	No		
Tanzania	No	Yes	No		
Thailand	Yes	Yes	No	Yes	Yes
Turkey	Yes	Yes	Yes		Yes
United Kingdom	No	Yes	No		Yes
Uruguay	Yes	Yes	Yes		Yes
Venezuela	Yes	Yes	Yes	Yes	Yes
Yugoslavia	Yes	Yes	No		

1/ The measures cited in this chart are for new cars. Trade restrictions on used cars are not reflected.

2/ Import restrictions apply to non-tariff measures maintained by a country which deal solely with imports. Tax measures which apply to both imports and domestically produced products are not included.

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Industrialized Countries Surveyed

Australia: A local content requirement of 85 percent is in effect. However, under the Export Facilitation Scheme, due to commence on March 1, 1982, Australian car manufacturers would be allowed to credit exports against local content requirements. These credits will increase from 5 percent in 1982 to 6.25 percent in 1983 and 7.5 percent in 1984 and can be used to import components duty free. The effect would be to reduce the local content requirement to 75 percent by 1984. Australia maintains a quota limiting imports of assembled vehicles to 20 percent of the existing market. There are import tariffs of 35-57.2 percent depending on stage of assembly. No export incentives exist. General Motors, Ford, Chrysler, Toyota and Nissan produce vehicles in Australia.

Austria: No local content regulations or export requirements are in effect in Austria. The automobile import duty is 20 percent. The value added tax (VAT) on automobiles is 30 percent. Steyr-Daimler-Puch (S-D-P) produces mopeds, trucks, busses and tractors. General Motors will shortly begin production of automobile engines and transmissions. S-D-P and BMW will soon produce diesel automobile engines.

Belgium: No local content regulations or export requirements are maintained by Belgium. There are reportedly quantitative restrictions on imports from Japan, Taiwan, South Korea, Indochina, and Eastern European countries. The import tariff on automobiles is the EC's 10.9 percent common external tariff. A 25 percent value added tax is levied on all automobiles sold in Belgium. Ford, GM, British Leyland, Peugeot-Citroen, and Volvo assemble cars and trucks, while Renault and Volkswagen assemble only automobiles in Belgium.

Canada: U.S.-Canadian auto trade is conducted under the terms of the Automotive Parts Trade Agreement (APTA). This trade is duty free. Canada has a 14.2 percent import duty on imports of non-U.S. cars and trucks and has safety and emission requirements similar to the United States. There are no local content requirements or quantitative restrictions. Chrysler, GM, Ford, AMC and Volvo have manufacturing facilities in Canada.

Denmark: There are no restrictions on automobile imports except the 10.9 percent EC common external tariff. A 20.25 percent VAT is levied.

France: There are no local content regulations or export requirements. Imports of Japanese automobiles have never risen to over 3 percent of the market and the French government has announced that it does not want them to exceed this level. The EC's 10.9 percent automobile tariff applies. There is a 33.3 percent VAT. General Motors and Ford produce components in France.

Germany: There are no local content, export requirements, or quantitative limitations. Germany applies the EC's 10.9 percent common external tariff on automobiles and has a 13 percent VAT. Germany maintains rigid safety and emissions standards. In addition, there is a graduated motor vehicle tax based on horsepower. General Motors and Ford have manufacturing/assembly plants.

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Italy: No local content regulations or export requirements exist. Italy applies the EC's 10.9 percent common external tariff on automobiles. Italy has formal quantitative restrictions on vehicle imports from certain Far Eastern (1980 allotment from Japan is 2,200 cars) and Eastern European countries. In addition, Italy's strict safety standards make certification of imported automobiles difficult to obtain. The automobile import duty is 10.9 percent. A VAT varying from 18-35 percent depending on engine size is applicable to all automobile sales.

Japan: Japan maintains no local content requirements or quantitative restrictions or import duties on automobiles. There is a 15 or 20 percent commodity tax levied on automobiles depending on engine size and on overall auto dimensions, and an annual automobile tax which also increases by engine size. The mechanical safety and environmental modifications required to comply with Japanese stringent vehicle regulations have discouraged imports. Additional disadvantages to American automobiles include the higher dealer margins and a complicated multi-layered distribution system.

Netherlands: The Dutch vehicle manufacturing industry is relatively small. DAF a Dutch firm, manufactures commercial and military vehicles. Volvo produces passenger cars and there are a number of smaller Dutch bus and trailer manufacturers. The tariff on automobiles is 10.9 percent for imports of automobiles from the U.S. into the EEC. There is an 18 percent value-added tax. Additionally, manufacturers or importers of passenger cars have to pay a special consumption tax of 16 or 17 percent. Imports are not subject to any special import licenses or quantitative restrictions.

New Zealand: There are no specific regulations dictating the amount of local content in automobiles assembled in this country. However, an import licensing system mandates the use of local components. Tariffs for completely built up autos (CBU) are: 55 percent for general tariff; 20 percent for Australia and the U.K.; and 33.3 percent to 55 percent for Canada depending on the level of commonwealth country content. Import tariffs for completely knocked down (CKD) units are: 45 percent general tariff rate; preferential rates of 6.25 percent for Australia and the U.K., and 13.75 percent to 45 percent for Canada depending on the level of Commonwealth country content. Certain Australian CKD autos are duty free and certain CBU autos are subject to a 10 percent duty under terms of the New Zealand Australian Free Trade Associaion. Licenses are required to import CKD cars but are, in effect, obtained automatically by assemblers. Licenses for CBU units are strictly controlled and currently maintained at a level of approximately 4 to 5 percent of the total annual sales of 65,000 to 70,000 units. Ford, General Motors, Chrysler, Toyota, British Leyland, Honda, Mazda, Skoda, Subaru, Datsun, Mitsubishi, and Talbot (Peugeot) have local assembly plants.

Norway: There are no local content regulations or vehicle import restrictions. Automobile import tariffs are 7.6 percent with an additional vehicle tax varying from 68-153 percent of the vehicle value. There is no automobile production in Norway.

Spain: Local content requirement for vehicles assembled in Spain is 55 percent. There are no import quotas. The import tariff for non-EC/EFTA source vehicles is 48 percent with a compensatory import tax of 13 percent. Luxury tax varies between 17.6-35 percent depending on horsepower of vehicle. Fiat, Renault, Citroen, Peugeot, Ford, General Motors have assembly operations in Spain.

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Sweden: There are no local content regulations. There is a 9 percent CIF import tariff on passenger cars and a 20.63 percent VAT on the duty paid value. There are apparently nonrestrictive import licenses, as well as stringent safety and emission standards. Swedish producers receive a rebate of all duties paid on imported components incorporated in a car which is exported. Only Saab and Volvo manufacture in Sweden.

Switzerland: Tariffs on passenger vehicles imported into Switzerland from the U.S. range from Swiss Francs 79.62 to 134.50 per 100 kilograms gross. Swiss impose duties on weight rather than on value. Substantially lower tariffs have been accorded to EC and EFTA suppliers. In addition, a turnover tax of 8.4 percent *ad valorem* is levied. No quantitative import restrictions are maintained; however, at time of registration of an imported vehicle in Switzerland, the U.S. made product must conform with the Swiss Regulations on Construction and Equipment of Motor Vehicles, amendments to which became effective on January 1, 1980. The objectives of the amendments are to reduce gradually noise level limits by October 1, 1982 and 1986, respectively. Swiss-made trucks and jeeps are manufactured and assembled at Arbon in the Canton of Thurgau.

United Kingdom: There are no local content regulations or export requirements. The import tariff on automobiles is the EC's common external tariff of 10.9 percent. It has been publicly reported that imports from Japan are voluntarily limited by the Japanese manufacturers to approximately 10 percent of the market. British Leyland, Ford, GM, and Peugeot-Citroen manufacture in the U.K. In addition there are numerous small, specialty firms. Current plans are for British Leyland to manufacture Honda designed automobiles in the near future.

Developing Countries Surveyed

The Andean Pact's Automotive Program

In 1977 the five Andean Pact members (Bolivia, Colombia, Ecuador, Peru, Venezuela) signed an agreement calling for the production of vehicles based on local componentry, with local content eventually reaching 70 percent. According to the Pact's schedule, the program will be in effect by the end of 1983. However, due to disagreements by Pact members as to who would produce certain types of vehicles and, even more importantly, key components such as engines, progress in implementing the program has been slow.

A Common External Tariff is to give protection against non-pact vehicles, 115 percent in the case of passenger cars similar to those to be produced in the Andean region and 155 percent for cars other than those produced there.

The following companies have signed agreements to participate in the program: General Motors, Volkswagen, and Fiat; other companies that are considering participating are: Ford, Renault, Mack Trucks, Nissan, Pegaso, and Volvo. In addition to these general provisions, member countries have the following specific rules:

> **Bolivia:** There are no vehicle manufacturing or assembly operations in Bolivia.

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Colombia: A 33 percent local content regulation is maintained on firms which assemble automobiles from imported components. Imported automobiles are assessed a 150 percent duty, a 35 percent sales tax, a 5 percent export promotion fee, a 1.5 percent export diversification fund tax, and a 1 percent consular invoice fee. There are no quantitative restrictions, but import licenses are used to restrict imports. Renault produces passenger cars. GM produces automobiles, trucks and van chassis. Fiat produces cars, trucks and buses.

Ecuador: There are presently no local content restrictions or export requirements in Ecuador. Import duties on automobiles range from 100 percent to 190 percent depending on price; on trucks and vans duties are 80 percent or 100 percent depending on type and capacity; and on four wheel drive vehicles they are 60 percent or 70 percent depending on price. In addition, an import surcharge of 30 percent on the c.i.f. value is applied to all motor vehicle imports except trucks. On all items, importation requirements call for a 1 percent service charge and a 50 percent prior deposit, both on the c.i.f. value. Importers are required to prepay 80 percent of the import duties before the import license is received. This license is issued by the Ministry of Industries, Commerce and Integration. In addition to the overall quota, each automotive dealer or distributor is assigned an individual quota. This is computed on the basis of past imports, and therefore, it varies for each distributor/dealer. Newly established dealers are assigned a quota of $40,000 per each six months.

Ecuador has begun to implement its ANCOM (Andean Common Market) assigned rights to manufacture: (1) light passenger cars and engines of 1050-1500 cc. motor size, and (2) light trucks and transmissions of 3.0-4.6 metric tons capacity. The Ecuadorean Government and Volkswagen signed a contract in December 1978 for the production of a passenger car. General Motors is carrying out feasibility studies for the production of light trucks.

Peru: Local content regulations require 10-35 percent local content depending on vehicle type. Although built up vehicle imports have been prohibited to date, reports are that import licenses will be obtainable in 1990. Import tariffs are 60 percent on trucks and 155 percent on automobiles. There is a 14.4 percent manufacturers tax. Exports are encouraged by rebating the import duties paid on imported components in the exported vehicle. Chrysler, Volkswagen, and Nissan assemble cars and trucks. Toyota assembles cars and Volvo assembles trucks.

Venezuela: Local content regulations call for annual increases from 48 percent currently to 90 percent in 1985. Imports are restricted to vehicle types produced locally. The tariff on imports is 120 percent on Venezuelan Government reference price. Export requirements are based on a percent of the value of national automobile production and in some instances they are quantitative requirements written into the assembler's contract. In addition to three local firms, Renault and Volkswagen assemble cars; Fiat, GM, and Ford assemble cars and trucks; Mack and International assemble trucks; and AMC and Toyota assemble jeeps.

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According to press reports, the Venezuelan Economic Cabinet approved a new automobile import policy on April 24, 1980. Now prohibited is the importation of 8-cylinder models (except by the government). All other models not produced in the country could be imported without license upon payment of *ad valorem* duty of 120 percent and a specific duty of 100 Bolivars per kilo. Models similar to those produced in Venezuela would pay an *ad valorem* duty of 120 percent only. Vans and 9-11 passenger vehicles would pay 135 percent *ad valorem* and 100 Bolivars per kilogram specific duties. Effective date of this new measure will presumably depend on publication of corresponding decree in the official gazette with new list of reference prices for 1980. Last year this took place on June 1st.

Other Developing Countries

Algeria: There are no automobile manufacturing assembly operations in Algeria. Unspecified quantitative restrictions on automobiles are in effect. Import duties on automobiles range from 40-50 percent.

Argentina: Local content regulations exist for all vehicles as follows: passenger - 93 percent in 1980, reduced to 88 percent in 1982; commercial - from 93-90 percent in 1980, reduced to 75-88 percent in 1982. Import tariffs on vehicles are 95 percent on cars (declining to 85 percent in 1982) and 65 percent on trucks (declining to 45 percent in 1982). Minimum import prices are $4 per cubic centimeter engine displacement plus 15 percent freight on cars. Export requirements apply only to intercompany parts shipments. Under this requirement exports must be 3 times the import level. Ford, Volkswagen, Fiat-Peugeot, Mercedes-Benz, and Saab have manufacturing facilities in Argentina.

Brazil: Local content regulations are in effect but are now individually negotiated with each firm with factors such as the individual firms balance of payments being taken into account.

Export incentives in the form of reduced import tariffs on parts are granted (under GATT these are being phased out). Imports of automobiles are currently embargoed. Normally, import tariffs on passenger cars are from 185 percent to 205 percent. In addition there is a system of minimum import values based on the car's weight. Passenger cars are produced in Brazil by Ford, GM, Volkswagen, Toyota, Puma and Fiat. Trucks are manufactured by Ford, Chrysler, GM, Mercedes, Fiat, Saab, Volvo, and Toyota.

Chile: Local content regulations requiring 30 percent of assembled cost for automobile manufacturers are in force. Exports are not required unless local content is less than 30 percent. In this case the local assemblers must export sufficient products to reach 30 percent of local production costs. Import tariffs on automobiles range from 10-80 percent depending on engine displacement. The 80 percent tariff will be reduced each year to reach a final rate of 10 percent in 1985. There is a 100 percent consumption tax if an automobile's CIF value plus duty, plus a 20 percent VAT exceeds $12,000. This consumption tax only applies to the amount over $12,000. There are no quantitative restrictions. GM assembles automobiles and trucks. Citroen, Fiat and Peugeot-Renault assemble automobiles.

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Egypt: Local content regulations vary by contract with each assembler. Fiat has a joint venture for automobiles with 30 percent to 40 percent local content required and AMC jeeps are assembled with a 15-20 percent local content. There are no export requirements. Import duties vary from 85 percent to 200 percent depending on engine size and number of cylinders. Individuals are allowed to import only one car every two years and the importation of right hand drive cars is forbidden. Payment of import duties must be made in hard currency.

Ghana: There are no local content regulations or export requirements in Ghana. A purchase tax which varies from 5 percent to 100 percent based on the car's value encourages local production. Commercial vehicles assembled in Ghana do not pay this tax. Under the vehicle standardization policy in effect since October 3, 1979, only vehicles - passenger cars, pick-ups, cross country vehicles, and buses - manufactured by approved manufacturers may be imported. The list includes Peugeot, Datsun, Volkswagen, Renault, Mazda, and Mack Truck. Cars for diplomats and Ghanaian officials are exempt from this requirement. Renault and Toyo Kogyo assemble cars. Nissan, Toyota, and Vauxhall assemble cars and buses. British Leyland, Ford, and Mercedes-Benz assemble buses and trucks. Chrysler, Deutz, Hino, M.A.N., and Mack assemble trucks. Neoplan assembles buses. Import tariffs range from 15 to 35 percent.

Greece: The value added component requirement imposed on local motor vehicle assembly is a minimum of 25 percent without mandatory upward escalation. Tariffs on imports from non-EEC countries range from 10 to 20.7 percent. In November 1979, a voluntary system designed to restrain imports was adopted providing for a reduction of 20 percent in car imports. Bus imports require an import license. The issuance of licenses is, at times, delayed or withheld. A pre-import cash deposit of 56 percent for buses and 28 percent for passenger automobiles is also required. The deposits are retained by the government for two months.

India: Local content regulations exist only for the domestic Indian automobile producers. There is no investment by foreign automobile manufacturers. Exports are encouraged by cash subsidies and import replenishment licenses. Import tariffs on other vehicles vary from 100-140 percent depending on type and axle weight. Import licenses are generally not issued for passenger cars and those for commercial vehicles are issued on a limited basis.

Indonesia: Progressively stringent local content regulations are being instituted in the motor vehicle industry although lags in component manufacture are slowing implementation. While the Government hoped to achieve full local manufacture of components for the most popular types of passenger and light commercial vehicles by 1984, it has extended this deadline until an unspecified date for components not yet manufactured in Indonesia or not manufactured in sufficient quantity. Presently all passenger vehicles, and all commercial vehicles imported into Java and Sumatra, are to be imported completely knocked-down. Import tariffs on built-up passenger vehicles range from 30 percent plus a 10 percent sales tax on jeeps to 200 percent plus a 20 percent sales tax on passenger cars. There are no export requirements or quantitative restrictions. Local assembly plants produce the following makes of passenger cars: Suzuki, Datsun, Hino, Landrover, Holden, Isuzu, Volkswagen, Mercedes, Mitsubishi, Renault, Peugeot, Alfa Romeo, BMW, Dodge, Fiat, Tata, Steyr, Citroen, Berliet, Moskvitch, Subaru, Volvo, Ford, Toyota, Honda, Chevrolet, Bedford, Morina, Daihatsu, and Mercedes-Deutz.

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Israel: There are no local content or export requirements maintained by Israel. Import duties are from 40 percent plus 2.50 shekels per kilogram for automobiles with engines 1,800 cc and less and 52 percent plus 1.25 shekels per kilogram for cars with engines 1,801 cc and larger. In addition, there is a purchase tax based on engine size which ranges from 85 percent to 150 percent plus a 5-7 percent import price uplift. These are assessed on a cascade basis. There are quantitative requirements attached to import licenses which are only granted to approved importers. Three Israeli firms assemble Ford cars: Ford, Dodge, Reo and Mack Trucks and AMC Jeeps. One local firm produces its own brand of trucks and passenger cars.

Kenya: No local content regulations exist but components manufactured locally may not be imported. Commercial and certain other vehicles are permitted to be imported only completely knocked-down. There are no export requirements. An import license accompanied by a 100 percent refundable prior import deposit is required. Import duties (CIF) on assembled passenger cars (other than public service-type vehicles) range from 40 percent for cars with an engine capacity not exceeding 1,200 cc, 75 percent for cars with a 1,751-2,000 cc engine capacity, to 150 percent with an engine capacity exceeding 2,250 cc. The duty on non-public service passenger cars, unassembled, for assembly into complete vehicles by an authorized assembler is 75 percent. Importers have been directed to seek 90-180 days credit overseas. The four authorized assemblers are Leyland Kenya Limited, General Motors Limited, Associated Vehicle Assemblers Limited and Fiat Kenya Limited. GM assembles Isuzu and Bedford trucks, British Leyland assembles trucks, Landrovers, Volkswagen microbuses and Mitsubishi light buses. Associated Vehicles assembles Datsun cars and buses, Peugeot trucks, Toyota trucks, Ford trucks, and Volvo trucks.

Import protection is accorded to local producers of the following automotive components: sealers, adhesives, batteries, tires, tubes, paints, flat glass, canvas, soft trim, upholstery, insulation, radiators, exhaust systems, leaf springs, spare wheel carriers, seat frames, wiring harnesses and brake linings.

Kuwait: There are no general restrictions on vehicle imports. A 4 percent ad valorem import tariff is in effect.

Malaysia: Under the ASEAN Automotive Federation (AAF) scheme for complementary ASEAN production, Malaysia will produce timing chains for cars; and spokes, nipples, and roller chains for motorcycles. Trade preferences by other ASEAN members would be granted these parts. Probably no further accreditation of additional capacity for the same product would be allowed until the ASEAN Committee on Industry, Minerals, and Energy determined that the market had expanded sufficiently to warrant further accreditation of similar projects.

Mexico: Local content regulations requiring 70 percent for passenger cars and 80 percent for trucks exist with a planned 5 percentage point increase of both in 1981. Imports of components are required to be offset by exports. Vehicle import duties range from 35 to 100 percent ad valorem. Vehicle imports are not allowed with the exception of a special customs zone near the U.S. border. Exceptions are usually only made if there is a shortfall in domestic supply. Chrysler, Volkswagen, Ford, GM and Nissan manufacture/assemble cars and trucks. American Motors produces cars and jeeps. Renault produces cars.

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Morocco: Local content regulations requiring 40-50 percent levels are in effect. All vehicle imports are restricted. All assembly operations are in part or totally Moroccan-owned. Through this system, Fiat, Opel, Simca, and Renault automobiles are assembled in Morocco. Berliet, Volvo, Bedford, Ford, DAF, Landrover, and Jeep utility, and industrial vehicles are assembled.

Nigeria: A 30 percent local content regulation is imposed after three years of assembly. Vehicle imports are restricted by import licenses and passenger vehicles with engines over 2,500 cc are prohibited. Passenger vehicles with smaller engines face duties of 50 to 250 percent. Volkswagen manufactures/assembles cars and minibuses. Peugeot manufactures/assembles cars. British Leyland manufactures/assembles trucks and Landrovers. Steyr manufactures/assembles trucks. Mercedes and Fiat will shortly begin to manufacture trucks and Nissan will start manufacturing automobiles.

Pakistan: There are no local content regulations as such but current use of locally produced components is encouraged by regulation and is reported to range from 26-60 percent of value depending on vehicle type. Projected use of local products is reported to be about 90 percent by 1985. Exports and imports are controlled. Commercial vehicle imports are prohibited. Imports of built up passenger vehicles are dutiable (75-350 percent ad valorem) depending on engine size. A state-owned corporation has a monopoly over the automobile industry. It has assembly arrangements with AMC (jeeps), Chrysler (trucks), GM (Isuzu trucks) Vauxhall (trucks and buses), Ford (minibuses), Suzuki (vans and pickups), Nissan (trucks), Toyo Kogyo (buses), Sumitomo (trucks), and Hino (trucks). This monolopy (PACO) controls the import of both completely knocked down and completely built up vehicles. Completely built up imports are limited to those being brought in by returning expatriate Pakistanis (6 months or more continuous stay overseas).

Philippines: The current local content regulations requirement is 62.5 percent. The import tariff rate varies from 30-72 percent for completely knocked down vehicles to 100 percent for assembled vehicles. There are three local automobile companies. One assembles Mitsubishi products and one assembles Volkswagens. The other assembles its own vehicles (the Tamaraw utility vehicle, a mini crusier military vehicle and various trucks). Ford has a body stamping plant and automobile assembly facilities. GM assembles cars and trucks, and manufactures transmissions.

Portugal: Local content regulations for vehicles assembled in Portugal are 22 percent in 1980 declining to zero in 1985. Current import quotas for completely knocked down and completely built up vehicles are scheduled to end in January 1985. Import duties for non-EC/EFTA source vehicles is approximately 4.5 U.S. cents per kilogram. Import quotas are scheduled to be phased out by 1985. GM, Ford, Renault, Citroen, Alfa Romeo, British Leyland, Peugeot, Talbot, Audi, BMW, Mercedes, Volkswagen, Toyota, Nissan, Mazda, Subaru, Honda, and Daihatsu have assembly operations in Portugal.

Saudi Arabia: There are no local content regulations or import restrictions. The import tariff is 3 percent of CIF value. Mercedes assembles trucks. A Saudi firm assembles buses using American-made chassis. The Saudi Arabian Government provides a subsidy to the National Company for Car Manufacturing, located in Jidda, in the form of an interest-free loan.

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South Africa: Passenger cars must contain 66 percent by weight local content. Starting in 1980, the local content regulations have been extended to light goods vehicles (approximately up to 2,800 pounds). The 1980 and 1981 requirements for these are 50 percent by weight. By 1982 these too must meet the requirement of 66 percent. Import licenses are required, but are granted to meet the full and reasonable requirements of components and subassemblies for passenger and light goods vehicles covered by a currently valid manufacturing program approved by the Minister of Economics. There are no export requirements. Fully manufactured cars may be imported without a license, but the duty is 100 percent. Excise tax for cars with less than 66 percent local content is 95 percent. For those with 66 percent local content, the excise duty per Rand value is a maximum of 13 Rand cents. There are excise duty decreases for percentages of local content achieved beyond the minimum 66 percent.

Nissan, Fiat, Ford, GM, British Leyland, Mercedes, Volkswagen, Sigma, and UCDD produce automobiles and trucks. Alfa Romeo, BMW, and Peugeot produce autos. Toyota South Africa produces its own brand of autos and trucks and assembles Renault autos and trucks.

South Korea: There are four auto manufacturing companies in Korea - Kia, Hyundai, Saehan, and Shin Jin. The first three companies also manufacture buses, and two - Hyundai and Saehan - manufacture trucks.

The tariff rate for automobiles is 80 percent.

Automobiles and auto components are on the "Restricted List", meaning prior approval of the Auto Trade Association is required before an import license can be issued. With regard to 100 percent foreign-made cars, the Association will issue import licenses depending on the "supply and demand situation" in Korea; however, such licenses are rarely approved.

Local content requirements are set by the Korean government for domestic manufacture and assembly of all cars, trucks, and buses. Those for cars, effective January 1, 1980, are as follows:

Maker	Type of vehicle	Local content requirement (Percent)
Kia	Brisa	94
-	Brisa II	92
-	Fiat 132	62
-	Peugeot 604	20
Hyundai	Pony	93
-	Cortina Mark IV	62
-	Granada	21
Saehan	Gemini	88
(Cars)	Rekord	65
Shin Jin	Jeep (J-5)	73
-	Diesel Jeep	91

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There are no specific export requirements *per se* for Korean auto manufacturers, although there are export targets and some moral pressure to meet those targets. According to the Korean auto industry association, however, there is one stipulation imposed on Hyundai and Kia: in order to obtain permission to import one knocked down Ford Granada or Peugeot 604 for local assembly and sale, the companies must export five domestically manufactured passenger cars.

Taiwan: Current local content requirement for vehicles is as follows: automobiles (including sedans, wagons and jeeps of 3.5 tons and below): 70 percent with proviso that manufacturer must produce one of the following components: (1) engine, (2) piston, connecting rod, and piston pin, (3) crankshaft, (4) axle transmission, (5) spring, (6) cylinder valve. Light motor vehicles (including truck, pick-up, and station wagon of 3.5 tons and below): 70 percent with proviso similar to sedans. Import duties on automobiles are from 55 percent to 75 percent depending on type.

Tanzania: No local content regulations exist. Imports are limited almost entirely to the government. Import tariffs vary from 40-100 percent depending on engine size. Except for trucks, the only automobile assembly operation is by British Leyland.

Thailand: Local content regulations requiring 35 percent local sourcing by August 1980 increasing annually to 50 percent in 1983 are in effect. Imports of built up passenger cars are prohibited. Duties of 150 percent are levied together with a 40 percent business tax on imported automobiles. Toyota, Nissan, Isuzu, and Ford produce cars, trucks and buses. Hino produces trucks and buses. Fiat, British Leyland and Volvo produce cars and buses. Mitsubishi, Mazda, Daihatsu, Subaru, GM, Volkswagen, Peugeot, Renault, BMW, Alfa Romeo, Citroen, Lancia, and Audi produce cars.

Turkey: Local content regulations are contained in the "Assembly Industry Regulation" enforced by the Turkish Ministry of Industry and Technology. Locally produced items are not permitted to be imported. Therefore, importation of automobiles is not permitted except under special circumstances. Import tariffs are 175 percent. Automobiles are produced under license from Ford (the Reliant Motor Company of U.K.), Fiat and Renault.

Uruguay: Local content regulations are in effect requiring local content of 25-32 percent of vehicle weight. Imports of automobiles are prohibited. Export regulations require the export of 40-105 percent (depending on vehicle type) of the import value of the completely knocked down kits the assembler imports. Peugeot-Citroen, Renault, Volkswagen, BMW, Ford, GM, and Fiat assembly automobiles in Uruguay.

Yugoslavia: Local content regulations require 50 percent local content to avoid imposition of higher sales taxes. Imports from other countries are only permitted by authorized dealers. Import tax on vehicles is 17 percent *ad valorem* and the duty is 25 percent. Authorized dealers are required to export goods totaling 30 percent of the value of each imported automobile. Quotas are maintained on imports from the USSR, East Germany, and Czechoslovakia and may be paid for in local currency. Other imports must be paid for in hard currency. Fiats, Ladas, Volkswagens, Audis, and Citroens are manufactured locally.

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The CHAIRMAN. Senator Gorton.

OPENING STATEMENT BY SENATOR GORTON

Senator GORTON. Mr. Chairman, there is no question that there are serious questions and serious inhibitions in connection with the international trade of the United States. There is also no question but that the imbalance of our trade with Japan is a serious matter. We should be doing all we can to see to it that Japanese markets are far more open to the United States than they are at the present time and that the Government of Japan undertakes more significant and a more fair share of the costs of defense of its part of the world and the free world as a whole.

Senator Danforth, a member of this committee, has sponsored trade reciprocity legislation which seems to me to be balanced, wise, and likely to be productive. I believe, on the other hand, the legislation which we have before us here today would be totally destructive not only of world trade but of the economy and of jobs in the United States.

Far from creating new jobs for every job which it created in an industry which remains significantly noncompetitive and inefficient, it would probably destroy two jobs in those areas of our economy which are efficient and which do lead the world. This kind of legislation will lead to retaliation all over the world.

It will take us down exactly the same road that the Smoot-Hawley tariff took us down at the beginning of the Great Depression, and it will not have a positive economic impact on the United States. It will have a highly negative impact on the United States and on employment as well as on the general wealth of this country.

The CHAIRMAN. Thank you.

Our first witness today is Senator Carl Levin of Michigan. Carl, welcome.

STATEMENT OF HON. CARL LEVIN, U.S. SENATOR FROM MICHIGAN

Senator LEVIN. Thank you, Mr. Chairman.

Let me also commend you for holding these hearings. I think it is an act of important leadership on your part and will result in the exploration of issues that are critical to the entire American economy.

Some of the critics, Mr. Chairman, of domestic content legislation claim that its adoption would start a trade war which would shake the very foundations of international trade. Now, the threatened prospect of a trade war would come as some surprise to U.S. beef producers, U.S. tobacco producers, U.S. lumber and telecommunications industries, and, yes, the U.S. auto industry itself. We are being shot at and shot up by the Japanese, who have the most protectionist economy in the world.

But some of those who hold up the spectre of a trade war ignore that we are already in the middle of such a war, but only the Japanese are shooting. Those critics also ignore that a study of auto-producing countries show that either through domestic content legislation or through other nontariff barriers or quotas every auto-producing country in the world provides some protection from being overwhelmed by imports.

For example, Australia, Brazil, Mexico, South Korea, and Spain have domestic content requirements. Significant nontariff barriers already exist in Australia, Austria, Belgium, Brazil, France, Italy, Mexico, New Zealand, Japan, Norway, South Korea, Spain, and the United Kingdom; and Belgium, Canada, France, Germany, Italy, the Netherlands, the United Kingdom, as well as the United States already have quantitative restrictions on automobile imports from Japan.

Now, the administration's position is internally inconsistent. While it claims to be opposed to domestic content and to be a proponent of free trade, it also claims credit for obtaining a so-called voluntary limit on the part of the Japanese with respect to their auto imports, now set at 1.7 million vehicles per year.

The issue here, therefore, is not whether or not to break new ground, but whether or not we are going to act in a way which is significant and effective. In the absence of some relief for the American auto industry, we are going to find further decline in that industry and, as my friend and colleague from Michigan said, in our entire industrial base, and this industrial base is essential to our economic security and to our military security.

The employment level in the automobile industry alone has already dramatically declined. In 1978, it was over 750,000. Now it is estimated at 448,000. The need for significant action, therefore, is urgent.

The alternative to legislation which would give reasonable relief to our automobile industry is continuing growth in unemployment and dislocation in this country. The American taxpayers are already paying for that unemployment in terms of unemployment compensation, loss of income taxes to the Treasury, and the cost of retraining and relief. So, the argument that taxpayers should not pay to help the automobile industry ignores the fact that the taxpayers are now paying billions for the fallout that results from the flood of Japanese imports.

In summary, domestic content is morally, practically, and fiscally justified. Morally, it is justified because the Japanese are the most protectionist economy in the world and raise high barriers to our exports of beef, autos, lumber, tobacco, telecommunications, and on and on and on. Practically, it is justified because it is essential that we give a respite to our auto industry, which has suffered such severe setbacks. Fiscally, it is justified because the taxpayers are paying billions in unemployment compensation, retraining and relief and loss of taxes to the Treasury. If something is not done, this cost to the taxpayers will continue to increase.

Free trade is the correct goal for this committee and for this country, but free trade has been used to the advantage of our competitors, particularly the Japanese, and to our detriment. It has been a one-way street. When our trading partners reduce the barriers to their foreign automobile sales and imports, at that point we will begin to walk on a street which has two sides. Until those barriers to our trade with them are reduced, it only makes sense that we treat others in this trading world as they treat us.

It only makes good sense to continue to work for free trade on a multilateral basis and not unilaterally follow that doctrine while our trading partners insist on taking advantage of its benefits without taking responsibility for its burdens.

I thank the Chairman again and the other members of the committee. You are now on the verge of considering an issue which is essential to the lifeblood of many of the States in this country and many of the regions in this country and to the economy itself.

The Chairman. Carl, thank you. First, let me announce how I plan to proceed on our hearing schedule this morning. Then I have a couple of questions, Carl.

We have a vote at 11 o'clock on a cloture motion and I do not know what the Senate may face shortly after that. I would hope at least we can finish receiving testimony from Senator Levin, Congressman Ottinger, Mr. Warden from the UAW, and Secretary Baldrige by 11 o'clock. If there is one vote, we will have to play it by ear. away; if there is a series of votes, we will have to play it by ear.

Carl, there is no question that Japan's is a restrictive economy. It does not matter which State you are from. I have tried to sell beef in Japan. Wendell Ford has tried to sell tobacco in Japan. You have tried to sell autos in Japan. Japan will contend that whatever their past practices might have been about autos, they do protect their agricultural base, as indeed do we.

That is something the entire world does. Japan will contend that today, not withstanding their past practices, they do not impose significant restrictions on the importation of American cars. They will cite the fact that other nations' cars, specifically Mercedes-Benz, BMW, and Volkswagen are selling briskly in Japan. One way or another, these European carmakers are able to surmount whatever alleged barriers there are to getting into the Japanese market.

Can you comment on what restrictions Japan now imposes on the importation of American cars, and are they different from the restrictions they impose on other countries?

Senator Levin. First, I would like to submit for the record a study which is about 75 pages long of the Office of the U.S. Trade Representative on Japanese barriers to free U.S. trade.[1]

The Chairman. Does this apply to autos only or to all American products in general?

Senator Levin. In general. It includes automobiles. They have a continued commodity tax which breaks at the point of our size automobile.

The Chairman. What do you mean?

Senator Levin. As I understand their tax policy, and it is more fully explored in this study, the tax dramatically increases at a certain weight of automobiles disproportionately and jaggedly increases at a certain weight which, just coincidentally, happens to be the weight of our imports.

The Chairman. Wouldn't that also apply to Mercedes-Benz?

Senator Levin. It may. I cannot comment on Mercedes-Benz, but it is no coincidence that that tax is designed that way.

The Chairman. Isn't that tax designed to encourage smaller cars?

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[1] The report is in the Committee files.

Senator LEVIN. If it is designed to encourage smaller cars, you would think it would be a proportionate tax on weight. Instead, it breaks dramatically at the point where American exports are. It is not a tax which goes up at some constant level to try to discourage heavier cars. It is a very dramatic break at a critical point where our cars would be eligible.

The CHAIRMAN. Do U.S. compact and subcompact cars fall above or below the weight?

Senator LEVIN. I think some would be above and some would be below. But the typical, standard American car would be above it and it is designed for that purpose. Their inspection policy, I understand, is that every car is inspected. Our inspection policy is that every 50th or 100th car is inspected. So, we should inspect every one of their cars.

Now, the full listing of their continuing barriers I would be happy to submit for the record, but they do continue. They say they are making progress and that is the way to go. The Japanese acknowledge there is a way to go.

The CHAIRMAN. I would like to see that listing. I was in Japan 1 month ago and they contend that while there once were barriers, they are no longer there. However, we must meet the same standards they apply to their own cars. In fact, they apply the weight tax to their car. They do make a luxury car in Japan—it is a big, heavy car and it pays the tax.

But they contend, as far as autos are concerned, that they no longer restrict entry by nontariff barriers.

Senator LEVIN. I would like to submit this from the Trade Representative that includes that list of continuing barriers, and I will also submit for the committee a separate list of such barriers.

The CHAIRMAN. Thank you.

[The information referred to follows:]

EXAMPLES OF STANDARDS BARRIERS (PRODUCT AND NTB)

Papayas and cherries: Product inspection difficulties.

Sake: Lack of testing procedures for imported sake.

Dried fruit: Inconsistencies in product additive regulations.

Fresh fruits and vegetables: Instance of excessively strict plant quarantine regulations, nonacceptance of U.S. test data.

Concentrated fruit juice: Excessively strict requirements concerning product packaging.

Processed foods: Excessive ingredient and product formula disclosure requirement; and lack of transparency in new food additive evaluation procedures.

Frozen bull semen: Commercial imports prohibited based on unjustified concern about animal health standards/domestic industry protection.

Medical and scientific instruments: Excessively strict product testing and certification procedures.

Pharmaceuticals: Nonacceptance of accelerated stability test data for market approval; nontransferability of approvals for manufacture and imports; and nonacceptance of results of preclinical tests conducted outside of Japan.

Cosmetics: Nonacceptance of U.S. test data, lack of a complete list of approved ingredients; prohibitions on conducting consumer preference testing; and delays in product registration.

Automobiles: Refusal to allow self-certification of compliance with Japanese standards; failure to implement commitment to accept affirmations by U.S. notaries public of "dates of manufacture."

Softball bats, tennis balls, inflatable athletic balls: Lack of access to Japanese sporting associations' certification marks (changes are being implemented).

Plywood: Design as opposed to performance requirements.

Chemical substances: Nonacceptance of U.S. testing data.

Senator RIEGLE. Would the Chairman yield just briefly, not to go on these two points at length, unless that is the desire of the Chair? But the value of the yen obviously is a factor here which gets incorporated in price differentials which has a bearing on how much our cars cost in that market.

Second, I just want to—whether we discuss that now or not, there is a material fact about there is a manipulation of the yen that makes our cars less competitive in the market. Many of us feel—and I think there is a consensus—that that has a bearing on our difficulty to make an appreciable penetration in that market and if you were an automobile dealer today in the United States and you wanted to go to Japan and open a dealership in Tokyo, the Packwood dealership in Tokyo, you are prevented from doing that.

Senator FORD. How about Ford?

Senator RIEGLE. Ford as well. The Wendell Ford dealership is likewise prohibited. I had a dealer a couple of years ago evidence an interest in trying to go and sell cars in Japan.

The CHAIRMAN. This is the kind of evidence that this committee needs to get. Too often, I find it controverted. I want to try to separate past practices, if I can, from what they are presently doing.

Senator RIEGLE. Let me suggest that what we should do is have the professional staff of the committee pursue each of these items. One of the items on the list should be whether today a domestic supplier of automobiles, a person or an entity here in the United States or offshore from Japan, can freely enter the Japanese retail market and set up shop, open the door, and sell cars freely in that country, as can be done in this country.

Senator LEVIN. Mr. Chairman, on that point, if I could, my staff has now given me the page number in this report, and I would like to quote briefly from it since the chairman asked me that question.

On page 26 of the report, relative to automobiles, this is what our Trade Representative said. This is a November 1982 report.

> The Ministry of Transportation of Japan has repeatedly turned down a United States request to recognize U.S. manufacturer self-certification of automobiles to Japanese standards. The U.S. permits all automobile manufacturers to self-certify compliance with U.S. regulations. The Ministry of Transportation of Japan still has not adopted administrative procedures to implement a May 1980 commitment on their part to accept U.S. notaries' public affirmations of the dates of manufacture of U.S. automobiles.

They do not accept our notarizations. They made a commitment to accept them in May of 1980.

The CHAIRMAN. Good. This is the kind of evidence I am looking for.

Senator LEVIN. I will read just one more line on this. "There has been more than a 2-year delay in resolving this standards issue, which is one of many in the automobile area." And then there is an appendix which lists examples of standards, barriers in a whole lot of industries, including automobiles.

So, this November 1982 report makes it clear that they are not even carrying out a 1980 commitment in the standards area in automobiles, and I think that is pretty clear evidence from our own Trade Representative that the Japanese continue to have nontariff barriers and they violate their own promises.

The CHAIRMAN. Senator Ford?

Senator **Ford**. I do not believe I will ask our colleague any questions. I am interested in reading your report. Does that cover the yen and the manipulation of the yen as it relates to the value of the dollar?

Senator **Levin**. I do not believe it does.

Senator **Ford**. This is something that is significant. Maybe we can announce now that Secretary Baldrige will be asked something about that, and he can be prepared when he arrives.

Thank you, Mr. Chairman.

The **Chairman**. Senator Riegle.

Senator **Riegle**. Mr. Chairman, in the interest of other witnesses and the lengthy opening statement I made, I will forego questions.

The **Chairman**. Senator Gorton.

Senator **Gorton**. No questions.

The **Chairman**. Senator Danforth.

Senator **Danforth**. Mr. Chairman, thank you very much.

I had the privilege of working very closely with Senator Riegle and Levin over the past couple of years relating to the very serious problems of our U.S. auto industry. I can remember, I guess it was, almost 2 years ago when we attempted jointly to get a temporary quota bill enacted.

That bill gave rise to the voluntary restraints that have been entered into now by the Japanese. The theory behind the voluntary quota bill was that the U.S. auto industry was in a sick condition; but that it was not necessarily terminally ill; that it was in a period of adjustment; and that the consumer was moving from large cars to small cars because of the high price of gasoline. So for a limited period of time of about 3 years, we would attempt to provide a recuperation period for the U.S. auto industry.

In addition to attempting to help with the quota bill, and the temporary restraints which were voluntarily entered into by the Japanese, I have worked with Senators Ford and Levin with respect to trade adjustment assistance to attempt to provide for transitional benefits for auto workers who are displaced from their jobs.

My hope in doing this was to help the auto industry without hurting others, not to hurt other people in the country. I would think that it would be possible to provide real assistance to the auto industry, without necessarily attacking or declaring a kind of war on other Americans who are trying to earn their own livings and take advantage of economic conditions as they find them.

I also would hope that it would be possible to aid the auto industry without conceding that it is a permanent basket case, without conceding that it is such a hopeless terminal cripple that we have to keep alive on an artificial support system for the rest of its existence.

Now the problem with the domestic content legislation, the problems, are really twofold. The first problem is that while this arguably—and I say arguably because I do not accept the argument—could help members of the auto workers union, it would also cause real economic harm to other Americans.

First, for everyone who buys a car, it would increase the cost of that car. There are various analyses of what the additional cost would be. The lowest guess is about $330 per car. I have heard guesses up to $3,000. But taking even the lowest figure, if we were to pass this bill we would be saying to the American people, who need automobiles and want automobiles, in effect, that Congress has decided to impose on you what amounts to an excise tax equal to that amount. Reach into your pockets, American consumers, and cough it up. I might say that additional sticker shock, in my opinion, would hurt the auto workers, but that is a separate matter.

In addition to the people who want to buy cars, how about those who are dependent on exports? There is no free lunch in international trade. If we decide on domestic content legislation, there is absolutely no doubt that there will be consequences for those Americans who are dependent on exports for their livelihood, and that, Mr. Chairman, is precisely the reason that a whole variety of organizations in this country are coming out against this legislation—farm organizations, for example, the aerospace industry, the chemical industry, high technology industries who are dependent on exports are now beginning to be hurt.

So I think that it is a very timely thing to hold these hearings because I think that the more effective groups concentrate on this legislation, the more they will realize that if Congress passes it, it will hurt them. It will injure them economically. I think so far we have only heard from one interest group, but I would hope that as time goes on, other interest groups would make this a matter of top priority and that they would communicate with Members of Congress.

Our colleague on this committee, Senator Long, has an expression which he frequently uses. He calls it beggar thy neighbor—a group that wants to help themselves and beggar everybody else. And I think that is exactly what we are facing in this legislation.

The final point that I would make is that it is quite different to have a temporary period of adjustment when we can recuperate, on the one hand, and, on the other hand, just hoist the white flag of surrender and say that the great days of the auto industry are behind us, we will never recoup and we need this permanent system to try to keep it alive. And by the way, I think the voluntary restraints should be extended; they have to be extended.

I really think that that is damaging to the pride of this great country when the heart of its industrial complex, the auto industry, this great pride of America, says we cannot do it any more. We cannot compete. We need this kind of special subsidy from the Government on a permanent basis.

So, Mr. Chairman, this really is not a question. It is just my own comments. I am sorry I was not here when members of the committee were called on to make their comments, but I appreciate you letting me do it at this time.

Senator RIEGLE. Would the Senator yield for just one question without getting into a debate back and forth?

The CHAIRMAN. This is a question of the Senator?

Senator DANFORTH. Well, I am not a witness, but I would be happy to enter into the discussion. I do have to get to the floor soon.

Senator FORD. Are you going to get protectionist at this point?

Senator RIEGLE. The point I would just like to make—or just two things. One, there are many of us who would challenge your estimates as to the cost premium if we in fact had domestic content laws. I think the price of cars in the United States would be less because we would be operating at a higher capacity, we can spread the cost over many more units, and there would be every economic justification for being able to offer cars at different prices over a longer period of time. But that is not my main point.

Your paraphrasing Senator Long's remark about beggaring, it seems to me if I were to seek an example of a nation who is doing exactly what you say you hope we will not do, it would be what Japan is doing today, which is really the reason for this hearing.

My question to you would be: Aren't they following a beggar-thy-neighbor policy in trade? Isn't that doing great damage to us? I am wondering what is left to us in the way of remedies if one is confronting that kind of policy by a major trading partner.

Senator **Danforth**. Well, first of all, let me say I carry no brief with Japan's trade policies, I have been critical of them for years; I continue to be critical of them.

The reason I support the reciprocity bill is that it provides a systematic method of dealing with inequities in international trade. I think we have got to pass the reciprocity bill. I think that we have to have a mechanism which is ongoing to deal with these problems.

I think that a continuing mechanism to redress grievances and inequities in trade is quite different from a kind of violent striking out. First of all, I believe that domestic content legislation is not going to be passed; let's face it. I think also that to the extent that we use it as a kind of a threat against the Japanese, we lose credibility. I think that domestic content legislation is generally viewed as something that is outrageous, which is really ridiculous, that it is, therefore, not credible.

I think that our trade posture with respect to Japan has been pretty much dominated by verbal threats and by legislative initiatives which nobody really believes in, and that it is time to get beyond the posturing and to put in place an ongoing mechanism which does hold out the promise of redressing the grievances which we have in a kind of nonthreatening way.

Senator **Riegle**. Are you conceding the fact that the Japanese do follow a beggar-thy-neighbor trade policy, only you would prefer to deal with it in a different fashion?

Senator **Danforth**. Yes, I do. I think that is right. I think that the Japanese look out for the Japanese, and they have an interest in keeping out as many American products as they possibly can. But I think that as we in our Government attempt to deal with this problem, we have to be cautious about causing damage to other American industries other than the auto industry. Therefore, the ideal is to fashion an effective method of dealing with the Japanese on the one hand, and on the other hand not causing damage to American interests.

The problem with this bill is a kind of blindness to parts of our economy other than the auto industry. This legislation is going to cause, not just from Japan, but in the rest of the world, a sort of copying and an emulation in the rest of the world which would cause real difficulty, particularly for those sectors of our economy that depend on exports.

The farmers will be hurt by this bill. The aerospace industry, high technology, services are going to be hurt by this bill. Consumers are going to be hurt. I hope all of these interested groups start to ask us in Congress, Why do you want to do this to us? Because I think if they do, this bill is going to get weaker and weaker.

Senator **Riegle**. The one thing that destroys your argument——

The **Chairman**. Perhaps we can have a more detailed discussion of this issue among the members of this committee if we ever have a markup on this bill.

Senator **Riegle**. I appreciate that, Mr. Chairman. I do, if I may, though, want to make one final comment, and this will be my last comment at this point. I think the thing on the record that destroys the argument that has been advanced is that every other nation on the face of this Earth is following a beggar-thy-neighbor trade policy on automobiles in one form or another. We are the only country left that does not do so, and to fail to recognize that, or to mix it up with other issues, I think, takes us right down a blind alley.

I thank the chairman for his indulgence.

The **Chairman**. Carl, I do not think we have any more questions of you.

Senator **Levin**. I was waiting for that question from Senator Danforth. Maybe we could answer it on the floor perhaps.

Senator **Danforth**. I do not want to leave here before you respond, if you wanted to.

Senator **Levin**. My response is obviously long. We are being made beggars of now not by the American automobile industry but by the Japanese, and your means of rectifying that, I am afraid, does the same thing we have been doing for 20 years, which is talk about it but not do anything about it, and I think it is time for action.

The **Chairman**. Thank you, Carl.

Our next witness is Congressman Richard Ottinger, an old friend and acquaintance who I have worked with on many issues in these Congresses.

Good morning, Dick.

STATEMENT OF HON. RICHARD OTTINGER, U.S. REPRESENTATIVE FROM NEW YORK

Mr. **Ottinger**. Good morning. I appreciate your having these hearings and giving me the opportunity to testify. Let me tell you first that the House last night passed my domestic content legislation by a margin of 215 to 188, so that a clear majority in the House does not think this is silly or frivolous legislation as it was referred to just recently by Senator Danforth, who I am sorry had to leave. One does not like to criticize without his being able to respond.

The legislation passed the House, and I hope that you will take the opportunity to try and get it passed in this session of the Senate, first because there are 300,000 auto workers out of work today and 600,000 people in related industries, people who make tires, and rubber, and steel, and glass, textiles, the materials that go into the upholstery of automobiles, and many other related products.

These people are in desperation, and many of the communities are in desperation. We have in fact lost 1 million jobs in auto-related industry since 1978. In 1978, the auto industry employed 1 million workers; in its supply industries, another 2.4 million workers, for a total of 3.4 million. The total employment has now fallen to 2.4 million, and the sorry story is that many of those are so long unemployed that 750,000 of them have run out of their unemployment benefits, so that you have a massive dislocation.

The automobile industry is central to the industrial base of our economy. If you care about this country continuing to be a major economic factor, then dwell on the fact that we have shifted so badly that our principal exports last year were of raw materials and our principal imports were of manufactured goods, and what has happened in the automobile industry is probably the most important facet of this.

The automobile industry makes tanks and other equipment for our military. If we lose our industrial base, we lose a tremendous amount of our military power and of our ability to compete economically in the world, at the same time that we have been losing our industrial base, and losing our automobile industry, and losing our steel industry, and our baseball bats.

Senator Wendell Ford is the principal sponsor of this legislation in the Senate. I would like to take this opportunity to acknowledge his leadership.

There has been a sharp increase in auto imports by foreign companies and American multinationals. The import share has risen from 17.9 in 1978 to 32 percent this past year.

The auto trade deficit with Japan alone was $13 billion, which is about 80 percent of the trade deficit entirely with Japan. The total trade deficit was $16 billion. So $13 billion out of $16 billion was automobiles.

Meanwhile, the U.S. companies have been making plans for substantially increasing their importation of parts in the coming years. U.S. companies now have annual imports of over 2 million engines and 1.7 million transmissions, and have plans to vastly increase their so-called out-sourcing, which will cost our industry and our workers many more jobs.

The answer to this by the opponents of this legislation in the House, and the principal opponent was the head of the Trade Subcommittee of the Ways and Means Committee, my good friend from Florida, Sam Gibbons, was that the automobile industry is becoming inefficient, and that is too bad, and all this legislation will do is protect an inefficient industry. So I guess the best thing we ought to do is revive some kind of impact assistance, give these poor workers some charity, and help them get into some other kind of profession.

I think that is an answer which this country simply cannot tolerate. The manufacturing capacity in automobiles and related goods is so central to our economy and so central to our basic strength and so central to our national defense that it is an answer which I cannot accept and which a majority in the House certainly did not accept.

Trade reciprocity legislation has been advanced as an alternative by two of the good Senators who are here. We have had that before us for a long time. There is no movement on it in the House. There were no hearings on it in the House. Sam Gibbons expressed his opposition to any kind of action in this field. In the meantime, we have got almost a million people out of work, and we are telling them, "Oh, I am sorry, we will look at this, we will talk some more, we will have some more hearings." Even if we pass the trade reciprocity legislation, as Senator Levin pointed out, you only gain a negotiating position like we have now in GATT.

Other cries are heard that this will cost jobs in other areas, and there will be tremendous retaliation, and indeed, the Budget Office's grim conclusions with respect to the net loss of jobs and higher prices of automobiles is entirely premised on the fact that this act will not work at all. There will be complete retaliation, that the automobile companies will not increase out-sourcing, and that imports are not going to increase. Somehow if we do not pass this legislation all our problems will go away.

Let me say that is just absolutely mythical. As has been said here before and said very eloquently, every major automobile producing country has restrictions, and they are restrictions that are a whale of a lot more stringent than our restrictions are. France, Germany, Italy, England all have quotas, and some of them are very sharp quotas on the imports of automobiles. There has been no retaliation against them, none whatsoever.

Thirty-one countries have domestic content restrictions, and there has been no retaliation. Let me tell you about Japan. You are interested in what Japan is doing. Japan is insisting that if they are going to buy our aircraft, that we have to make a certain percentage of them in Japan. They are insisting and succeeding in getting domestic content requirements on our airplanes.

Senator FORD. Would you repeat that statement as it relates to aircraft—just to emphasize it in the record?

Mr. OTTINGER. Japan at the present time is enforcing domestic content requirements against us in our aircraft sales, all of them. They are requiring a higher percentage of domestic manufacture in order to award contracts to American firms, and they are succeeding.

So what are we saying? We are saying, let them beat up on us. Let them protect their own workers. Let them protect their own industry, and let us hold up the high and mighty flag of free trade. I am for free trade. I have always been for free trade, but free trade has to be a reciprocal matter. We cannot be Uncle Sucker. We cannot say, look, free trade is what is best for the world, and I am convinced it is, but we will hold that banner up and we will allow the other countries of the world to have restrictions against our trade, and watch our industrial base disappear, watch our electronics, watch our phonographs, our recorders, our computers now begin to go, watch our automobiles disappear, and in so many other areas.

Senator Packwood, you asked about trade barriers. In addition to the study that was referred to by Senator Levin, our committee prepared a short summary of matters in which Japan continues to discriminate against us, and despite significant trade reductions achieved in 1982, our own Ambassador David McDonald reported that there were still highly discriminatory tariffs against the

United States and Japan in wood, wood products, paper, paper products, magnesium, refined copper, beef, citrus, egg products, chocolate, confectioneries, leather, harvesting equipment, bedding products, leather and fur skins, computer and computer parts, cash registers, photographic enlargers, and photographic files.

In addition, there are 27 items in which assertions of GATT violations have been made by the United States against Japan for maintaining illegal quotas.

Mind you, this legislation does not provide quotas——

The CHAIRMAN. Let me interrupt you for a minute. I do not quarrel with you about Japan imposing trade restrictions. They do. What I am curious about is whether or not those who support this legislation would still support it if Japan had no trade restrictions. This bill is designed to protect our domestic auto industry against Japanese imports, and not to open up Japanese markets to our producers.

Mr. OTTINGER. Well, I think it has a number of purposes. I think that the legislation would be ameliorated. The pressure for it would be much less. You would be able to settle, I think, with much less drastic figures if in fact Japan started to buy something like its fair share of automobiles from the United States. It would make a big difference from the U.S. automobile industry. Or, if Japan made a move to put plants in the United States.

There has been some progress, as you know, toward that at the present time.

The CHAIRMAN. Assuming no restrictions, are you convinced that the American automobile industry could sell a great number of cars in the Japanese market?

Mr. OTTINGER. If there were no restrictions, I am.

The CHAIRMAN. If we assume Japan imposed the same restrictions they impose on their own manufacturers, such as emission standards, would the sale of U.S. cars greatly increase?

Mr. OTTINGER. If we were allowed to compete fairly in Japan, if we did not have to have inspection car by car, if we did not have to go through their national corporation—MITI—to be able to sell our products, I think our products would sell. Indeed, there are examples of that. The baseball bat is an example. They started to make baseball bats. They started to change them. They changed the specifications on them. No more U.S. baseball bats were allowed. They did the same with electric stoves. Fair is fair.

I think that we have got to show, and Congress is the only body that will be able to do that, that we really mean business, that we want to work toward free trade, but we will no longer be suckers and just allow ourselves to continue to be not only advocates but followers of free trade and see the other countries of the world walk off with our industrial base.

I think Congress passing this bill would make a real difference. Let me cite you the example in Canada. Japan was starting to flood the Canadian market with automobiles, and Canada wanted to get some kind of agreement to restrict that phenomenon since their workers were being put out of work. Japan said no. Canada said, all right, we will apply the same procedures against you that you apply against us. We will start inspecting every car individually, and the cars started to pile up in the lots. Then the ships started to pile up in the harbor, and within 2 weeks Japan agreed. They did not retaliate against Canada. They agreed.

What I am saying is, unless we show some spine, unless Congress shows we are serious, there will be no effect. I know Secretary Brock well. I love him dearly. He tried as hard as he could. He went over to Geneva, and he tried to get the rest of the countries of the world to address this very question, the question of investments, and the question of subsidies to exports, and the rest of the world, not just the Common Market they said, "Go home, we are not interested in talking to you."

I think that is because they know we are not serious. They know that we are going to continue to abide by free trade. The President says it over and over again. All the cabinet ministers say, we are not going to do anything about these problems.

So, why should they bother to negotiate seriously with us if we are not going to do anything? I think if we pass this legislation we will see a very positive response. We will not see the kind of retaliation that is predicted and upon which these studies are based. The CBO study itself shows that if there were not retaliation, there would be 250,000 jobs created. The CBO does not go into any consideration at all of the out-sourcing of additional sourcing by U.S. companies which accounts for additional jobs or by retaining the jobs that we have now because imports are on a very fast increase. It does not take account of any of that. So, I just do not see that there will be a net loss in jobs, and I do not think that there will be retaliation from any countries that complained to GATT about us that are so vulnerable, because they have so many greater restraints against us that it would never happen. They would not dare do it. They would lose any GATT exchange, and after all, GATT is just a mechanism, just like reciprocity would be, to try to adjust differences.

We have not asserted claims successfully against them, and they have not even tried to assert claims against us. So I think that unless we get tough and show we are prepared to give the kind of protection to our automobile workers that they have given to theirs, that we will not see progress on this.

I thank you for your indulgence. I have a lot more, but I know you have a long witness list, and I will be glad to answer your questions, but I would submit the rest of my testimony.

The CHAIRMAN. Your entire statement will appear in the record.

I want to be sure of what you said. Japan has a local content requirement for aircraft purchased and operated by Japanese airlines?

Mr. OTTINGER. Not operated. That they were purchased, part of the purchase contract. I have a whole series of articles. Let me submit those for the record. The specific examples of the Boeing Airbus, Lockheed, McDonnell Douglas, Boeing 767's, and the local requirement was required by the Japanese not by law but by practice, in order to be able to sell our aircraft in Japan. I will be glad to submit those for the record.

The CHAIRMAN. Senator Ford?

Senator FORD. Congressman, a couple of quick questions. In your debate in the House yesterday, did you get into the yen and how

Japan obviously manipulates the yen to keep them in a favorable monetary balance?

Mr. OTTINGER. Yes, we did, very distinctly. I think perhaps I should just briefly mention the fact that we have changed the formula from the original bill as is now introduced in the Senate to make the penalty fit the crime, to have the penalty increase in proportion to the amount by which a country falls below the domestic content requirements of the bill. I will be glad to specify that if you want, but the debate on your subject came up in connection with that, because Honda, with its plant in Ohio, at the present time would almost qualify under the formula in our bill as passed.

It was stated that, well, Honda might well not be able to meet that formula if production kept falling in the United States. I pointed out that just with the adjustment in the value of the yen, this whole picture could change, and indeed, that is a significant factor, and that is one of the items that should be on the negotiating table when we meet with Japan, and we would have leverage in being able to deal with this situation if we had this kind of law.

Senator FORD. Are they subject to the same kind of tax that we are about to pass in Congress as it relates to parts, accessories, tires, retreading, weight taxes and those sorts of things? Are the parts that come into this country subject to the same as our tax, our highway tax bill?

Mr. OTTINGER. I do not know, Senator Ford. I am sure there is a quirk in there somewhere to get out of it. Here is the ironic thing to me, Senator. We heard a flag-waving speech by Jack Danforth. I like Jack Danforth. He wobbles very, very well. He is on the side opposite us in this one, but on natural gas he wanted to put a cap on the price they were able to charge by the American producer and leave Algeria and Canada and Mexico to charge anything they want to charge.

Now, on this one, he wants to damage the American producer in the auto industry and allow the foreign or the imports into this country to do anything they want to do, based on a free and open market. I heard a banker say the other night they would just like to play on a level field. We would just like to play by the same rules. If we are playing by the same rules, we will take the world on, and we have done it.

The thing I see here that is wrong is, our industry is required to compete with other countries and other countries compete with our industry, and the other countries manipulate it any way they can, and we go to the table and come away whipped every time, and it has been a pattern since President Nixon, I think, who switched our valuation to the gold standard.

Senator FORD. Let me ask you what kind of retaliation has developed when France has now taken their video recorders from the port to 200 miles inland, and they have one man, one individual who inspects every recorder. Do you know anything about that?

Mr. OTTINGER. Absolutely none. Japan just lowered its quota for automobiles from about 3.2, I think, to 2.2 percent.

Senator FORD. What I am saying, this is what we could do to their cars apparently. Canada did, and all of a sudden everything stacked up. This is the type of thing that is applied against us.

I would hope that somewhere along the way we could come down to an agreement. I think something can be worked out, and I think something can be put into law that would be amenable to both sides, and I look forward to it. We have already been told we will not pass this bill this session, and that is accurate, because once it is brought up and they start filibustering, it will have to come down or we will not get the continuing resolution. But it will be back on deck again.

Mr. OTTINGER. A poll was taken of the new House Members, and I think three-quarters of the new House Members were polled as favoring this legislation. So I am sure we will get a stronger majority for it next year than it is this year, but in considering whether to bring it up this year, I hope you keep in mind that almost a million people are out of work, and a lot have lost their unemployment benefits, and the longer we delay on taking action on this legislation, the longer we will continue to see this process of erosion.

I would also like to say, since it was alleged that this was anticonsumer, and Senator Danforth said he hoped the consumers would be heard from, the National Consumers Association, National Association of Senior Citizens, the NAACP, the AFL-CIO are all very proconsumer folks. They all support this legislation. They believe, as I believe, that Japan will comply with the legislation, that Japan will not retaliate, that we will therefore have more manufacturers competing in the United States, and we will drive prices down.

The CHAIRMAN. Senator Gorton?

Senator GORTON. Representative Ottinger, I would like to follow up on Senator Ford's questions.

I guess the paradox of the bill, it seems to me that you and the two sponsors who preceded you have all emphasized very, very heavily the fact that we should do this, we should engage in this form of trade restriction, because the Japanese and others, but particularly the Japanese, so restrict American imports of many, many kinds into Japan that it may be appropriate to describe this kind of legislation as beggar thy neighbor, but because other people are beggaring their neighbors we ought to beggar ours, even though our neighbors may be inside the United States rather than outside.

So first, I am not quite certain whether the design of this legislation is clearly and directly to put more automobile workers to work whatever the consequences to other workers in the United States, or a design that is simply a kick in the pants that we are not going to enforce but we are trying to get freer trade from other trading partners, particularly the Japanese.

It is in that light that Senator Packwood asked you the question. If there were no restrictions either way, no American restrictions on Japanese automobiles in the United States and no Japanese restrictions on American automobiles in Japan, except of course for whatever each of our domestic laws imply it is, then we would be better off than we are today.

To the extent you answered that question, it seems to me you answered that question in the affirmative; that we would sell more, that our increase in sales to Japan would be greater in dollars than the increase in Japanese sales in the United States. Did you really say and mean that? If we ended even the voluntary arrangements that we have at the present time in return for the Japanese ending all restrictions on American automobiles, what would be the net gain of that? Is that your estimation of our automobile industry?

Mr. OTTINGER. Yes, I think our automobiles would sell in Japan. We presently have nine-tenths of 1 percent in their market (0.9). The U.S. cars are a prestige item in Japan because there are so few of them there. By the time the Japanese get through with their taxes, inspection and everything else, it costs twice as much. If you did that on a competitive basis, I think we would sell many tens of thousands, perhaps hundreds of thousands of cars in Japan. I think that would make a real difference for America's workers.

The other part of your question, is this jobs legislation or is it trade legislation; I think it is jobs. As I have said, I think that we could ameliorate our current situation considerably. I do think we have to worry about those jobs being lost in the United States.

Senator GORTON. Could I ask one more question?

Mr. OTTINGER. The premise is unlikely that Japan is going to sweep away these restrictions.

Senator GORTON. Strictly from a philosophical point of view—let's go beyond automobiles—there would be tremendous gains for Japan's market taken as a whole if it were as open to the United States as the United States is open to Japan right now. Would we be better off, and would this legislation become something that you would no longer support?

Mr. OTTINGER. We would be much better off. The United States auto industry is said to have died.

Senator GORTON. I am not assuming anything.

Mr. OTTINGER. That is what your question seems to imply. I do not think that is the case. I think we have some problems. I think the automobile industry made a bad management decision and they are putting us in a bad situation because at the time of the oil embargo in 1978, Japan was already producing efficient automobiles. We were caught with large cars. They were already in the small car market in a big way, and we were not. So we had a big changeover to make.

We made that changeover. We have also entered into new kinds of arrangements. In my district, where there are 2,000 unemployed auto workers because they had to lay off the night shift, they have what they consider an ideal new arrangement between management and labor being able to resolve their problems amicably, and being able to improve productivity.

So the productivity has just soared in the production of automobiles. I have no question that if we're allowed to compete fairly, that we can compete effectively.

Senator GORTON. Well, I think with that statement we are in complete agreement. I am sure I speak for Senator Packwood. I, too, believe that if we had as open a market in Japan across the board as our market is open to Japan—and, for that matter, the rest of the world—that would be of net benefit to the United States.

Mr. OTTINGER. There is another aspect we need fairness in. That is with respect to exports to the Third World; a huge, huge market, virtually as big as the European market, and the Japanese and the Europeans subsidize their exports to their market very markedly.

We do not. We are being the good guys. They are taking the market. I think we ought to give the same kind of subsidies to our exports as they do and then try to get agreement to get it off and take the same kind of action called for in this domestic content legislation. Otherwise, we will find that they have all the market.

I went to the first United Nations Conference on Renewable Energy in Kenya this year. The solar industry there was horrified because even though we are the leaders in photovoltaics, they said there is going to be no U.S. manufacturing at all in the next 10 years. Why? Because they other countries subsidize their exports so heavily that our products, even being superior, will not sell, and they pick up all our research and development. We have abandoned it under the Reagan budget cuts.

I just do not think we can tolerate that. We cannot forgo the biggest potential market in the world. So I think in that area, too, we are going to have to see fair competition.

Senator **Gorton**. Thank you, Dick. Thank you, Mr. Chairman.

The **Chairman**. Dick, a couple of questions. DISC is a subsidy, no question about it. It is a subsidy for exports. You talk about a Japanese rebate of taxes—what they are rebating is their so-called commodity tax or value-added tax. All value-added tax countries make rebates for exports. If we wanted to do so, we could have a value-added tax. They simply choose to collect their taxes in a different manner and then we complain.

Mr. **Ottinger**. They go much further than that. The photovoltaics people said that they were giving no-interest loans to induce the purchase of their product, their photovoltaic systems. That is not just any rebated taxes.

We have Eximbank, and we are cutting back on it.

The **Chairman**. When I was in Japan a month ago, I noticed the Kodak disk camera selling quite well. Whether or not Japan makes a disk camera now I do not know. They probably will soon, but there did not seem to be any restriction on the sale of those cameras.

Pabst Brewing Co. has gone into local Japanese breweries and they were not protecting it. What I fear that we would be facing, in this legislation, is whether or not Japan had any restriction to the import of automobiles. The complaint would be that their imports here are unfair competition, forgetting whether or not we can get into their market.

You have been very tolerant. I will not hold you any longer.

Senator **Ford**. Mr. Chairman, this is a point that somehow—I see Secretary Baldrige here; maybe he can help us, but we talk about the fluctuating yen. Our taxes are built in. It is basically a capital investment and we do not have the ability to rebate those.

We could change it, I guess, and give back to the manufacturer a value-added tax. But we find that not only are the other countries manipulating their currency, but we have locked in our taxes and there is no way for us to come out on top.

So maybe we ought to look at the tax as it relates to exports in this country. I think rather than becoming protectionists we must become realists.

Mr. OTTINGER. I want to make it clear I have got no animosity toward Japan whatsoever. This legislation is not designed to punish Japan in any way.

What it is designed to do is to try and set up a system that will provide equity. I do not think that Japan is at war with us either or hostile to us—but Japan is taking advantage of everything it can to protect its own and advance its own interests. I just say we have to do the same and reach a more equitable arrangement than we had with Japan before.

Because the way this comes out, you hear about all these arguments and you hear about all these things being done and it kind of sounds like we are reviving the hostilities of World War II, as far as I am concerned. And I think most of the people who are doing this, are doing it without animosity. It is just a feeling that Japan has been very aggressive in supporting its markets, and we just have to get on the ball and be as aggressive in supporting our own and in reaching a more equitable relationship with Japan, hopefully by reducing barriers.

The CHAIRMAN. Any more questions, Wendell?

Senator FORD. No, thank you. I appreciate it.

The CHAIRMAN. Dick, thank you very much.

Mr. OTTINGER. Thank you, Senator.

[The statement follows:]

STATEMENT OF HON. RICHARD L. OTTINGER, U.S. REPRESENTATIVE FROM NEW YORK

Mr. Chairman, members of the committee, I appreciate being invited to appear before you today to testify on S. 2300, the Fair Practices in Automotive Products Act, and I applaud you, Mr. Chairman, for scheduling this hearing on this vital issue.

As you know, H.R. 5133, the similar measure in the House, passed last night by a vote of 215 to 188.

This legislation, Mr. Chairman, seeks to deal with the most pressing economic issue of the day—unemployment. The subject of fair trade in the automotive industry is of vital importance to our nation's economic health, and to the lives and welfare of 300,000 unemployed auto workers and over 600,000 people who are unemployed because of the ripple effect the auto industry has on related endeavors.

The U.S. auto industry has been sinking into a depression for over three years. Over a million jobs have been lost in the auto industry and its supplier industries. In 1978, the auto industry employed a million workers and its supplier industries another 2.4 million workers, for a total of 3.4 million. Total employment has now fallen to 2.4 million. In many parts of this country, this has contributed to unemployment rates unheard of since the Great Depression.

A sharp increase in auto imports by foreign companies and American multinationals has aggravated this terrible situation. While the stagnant overall economy has reduced total car sales, import sales have grown rapidly. The import share has risen from 17.9 percent in 1978 to 32 percent in 1982. The auto trade deficit with Japan alone was $13 billion compared to a total U.S. deficit with Japan of $16 billion. Meanwhile, the U.S. companies have been making plans for substantially increasing their imports of parts and vehicles in coming years. U.S. companies have now annual imports of over 2 million engines and 1.7 million transmissions. They are negotiating to import far more vehicles and major parts in coming years. If this pattern is allowed to continue unchecked, further massive job displacement is in store.

Passage of S. 2300 would create or preserve 637,000 jobs by 1986 and 1,386,000 jobs by 1990. Most of these jobs would be at the U.S.-based multinational auto companies whose foreign sourcing would be limited, at foreign auto companies newly operating here, and at their suppliers. There would be a substantial ripple effect that would increase jobs outside of the production of autos. Anyone who thinks that jobs lost in one sector will automatically be made up by more jobs in other sectors simply doesn't understand the gravity of employemnt problems in the last few years. Millions of jobs have been lost in parts of our economy and new jobs have not automatically appeared to replace them.

A healthy auto industry is important to the nation's economy, not only in terms of employment and trade, but in terms of the linkages it has to other key industries. For example, the auto industry uses 21 percent of the steel produced in this country, 60 percent of the synthetic rubber, and 12 percent of the aluminum. The auto industry also develops and purchases a large percentage of high technology products, like industrial robots, computer-aided design equipment, and electronically-controlled machine tools. All these supplier industries would be damaged if their largest single customer, the auto industry, continues its rapid erosion.

Passage of S. 2300 would assure the continued strength of U.S. automotive production, particularly our capacity for producing small cars. Both foreign and domestic auto companies would have to invest here and purchase parts made here.

The rules of S. 2300 are designed to assure a healthy and competitive domestic auto industry. The bill takes into account the fact that a few giant vehicle manufacturers decide where production takes place to supply the U.S. market. Their strategic decisions determine the livelihood of hundreds of thousands of American workers.

The bill imposes obligations only on companies with sales exceeding 100,000. Ten auto companies have that many sales in the U.S. today; GM, Ford, Chrysler, Nissan, Toyota, Honda, VW, Toyo Kogyo, AMC, and Mitsubishi. The bill provides for a one-year grace period, after which the requirements are to be phased in by thirds in each of the next three years.

A company's local content requirement depends on the level of its sales.

The content ratio of a company is based on its sales, exports, and imports of original equipment automotive parts and vehicles. Its imports less its exports equal its net imports. The local content percentage is derived by taking 100 percent and then subtracting a company's net imports as a percentage of its sales. For example, a company would have 90 percent local content in its net imports represent 10 percent of its U.S. sales. It has 40 percent local content when net imports are 60 percent of sales. In addition, no company can have a content ratio lower than 10 percent below the ratio it achieves in model year 1983.

This schedule is achievable. The U.S. "Big Three," VW and AMC-Renault now have enough domestic production and supplies to meet their content ratios for model year 1986 and beyond. With its new U.S. assembly plant fully utilized, Honda can meet its ratio simply by expanding its purchases of domestic parts and materials along the lines that VW has followed. Nissan's truck plant provides them with a good start toward compliance, but they will probably have to do more assembly here as well as purchase more U.S. parts. Toyota, Toyo Kogyo and Mitsubishi would have to begin to invest here. In many cases, these companies would not have to build completely new facilities. They could instead follow the lead of VW and Renault by acquiring ownership of existing facilities for production of their vehicles.

As all these major foreign companies invested in U.S. production, they would maintain much-needed competition in the American marketplace. The consumer would continue to have a wide choice of vehicles since modern assembly plants allow many different types of models and drive trains to go down the same line.

With major foreign companies producing in the U.S., competition to satisfy the American consumer would be based on the best technology, service, quality and price under the same rules. Competition would no longer be based on unfair exchange rates or lopsided tax treatment. The yen today is generally considered to be undervalued by 25 percent or more. That has a devastating effect not only on current car sales, but also on where auto companies choose to build their new products. The gap in the taxes paid on cars shipped between the two countries is just as wide. When Japanese cars leave Japan, most taxes on them are rebated back to the manufacturer and few taxes are added when they enter the U.S. Going in the other direction, however, exported U.S. cars bear their full share of taxes when they leave here and get charged heavy Japanese taxes before they can be sold.

Because foreign-based multinational companies would be investing here to compete with the U.S. multinationals, the bill would have little effect on prices. The only study to predict large price increases was financed by the import dealers association.

The world does not have anything like free trade in automobiles today. In fact, every other major auto-producing country has taken stiff measures to defend its domestic production of autos and parts. For example, all of the major countries of Europe have prevented imports from Japan from capturing even half the 23 percent share that Japanese companies have taken in the U.S. Italy restricts Japanese imports to 2,000 cars a year—a fraction of one percent of that market. France held the

Japanese share to just 3 percent from 1978 to 1981, when setbacks in the French auto industry led to a cutback of the Japanese share to 2.5 percent. A "gentleman's agreement" between the British and Japanese industries keeps the Japanese share to less than 11 percent. Finally, the Japanese share has been held to about 11 percent in Germany. For its part, Japan poses formidable inspection requirements for imported vehicles following a history of prohibitive tariffs. Total imports of cars and trucks represent less than 1 percent of the Japanese market. In addition to these five major countries, over thirty other countries impose some form of local content requirements for their domestic auto industries.

Quite frankly, the effect of the bill before you today is quite mild in comparison to other countries' auto investment policies. No complaint in the GATT has ever been made against any of these other practices. The U.S. administration has nonetheless contended that investment measures such as S. 2300 violate the GATT. Events at the recently completed GATT Ministerial in Geneva undermine this view. The United States Trade Representative had asked that investment matters be put on the agenda for ongoing GATT negotiation. But other countries contended that GATT was not the proper forum for investment issues and GATT negotiations over investment rules was rejected.

In conclusion, Mr. Chairman, each of us realizes that the auto industry plays a key role in the growth and prosperity of every large industrial country. Because of that, no other major auto-producing nation has ever allowed its own auto production to collapse relative to local sales at the rate we have experienced since 1978. In the past 20 years, many governments have intervened at critical stages to prevent the destruction of their national auto markets—among them are Japan, Germany, France, Italy and Britain.

During consideration of H.R. 5133 by the House, both proponents of this legislation and those who join me in advocating it rattled-off statistic after statistic about how many jobs it will provide or not provide, and what the impact will be on the price of a car. I am sure that my colleagues that oppose this legislation will voice those same concerns and statistics. Let me say that I join a majority of the members of the House, who have cosponsored this legislation, in believing that the result of enactent will mean jobs—lots of them. While I don't think that this bill will result in the undesirable side-effects that opponents claim, the bottom line is that the United States cannot continue to cling to open U.S. auto markets while our competitors close theirs to us and make-off with our sales and jobs.

The United States cannot continue to play "Uncle Sucker" in light of the practices of Japan, Europe and others which, while not enforcing auto domestic content laws per se, practice inspection procedures and apply tariffs that exclude our autos and other products from their markets. The opponents of this legislation speculate about possible retaliation. Yet 31 countries have domestic content laws for autos already on the books, and Japan has not retaliated against any one of them in any way. All European countries, as I have said, maintain quotas for Japanese imports without objection. We are the largest auto market in the world, and to abandon it would mean economic collapse for the Japanese.

Mr. Chairman, while all sorts of speculations about my bill have been voiced, we all know that there are some 300,000 auto workers without a job—and that is a fact.

The time is short. We are talking about the jobs, livelihoods, and the economic survival of an estimated 867,000 Americans and their familes. We must act, and we must act now.

I urge you to act quickly and favorably on S. 2300.

Attachments.

JAPANESE TRADE BARRIERS

Mr. Speaker, this week the House is scheduled to consider H.R. 5133, the Fair Practices in Automotive Products Act. The purpose of that legislation is not protectionism, nor is it intended as a tool to open up other countries' barriers to U.S. products. Rather, its purpose is to encourage foreign automakers to manufacture their vehicles in the United States with American labor and to utilize more American built parts. It is also aimed at discouraging out-sourcing by U.S. domestic automakers. At the same time, I believe that this needed legislation will help to convince other nations that we mean business and that they must open their economy to U.S. goods, services, and investments.

The latter has already begun ever so slowly. I noted, for example, that a December 8, 1982 Washington Post news story (p. D-10) indicates that Japan's new Prime Minister, Mr. Yasuhiro Nakasone, has reportedly ordered his cabinet to work out a new set of steps to reduce Japan's trade barriers and open its markets to American goods before he comes here next month for talks with the President. That is a sign, an important one, but it is only a preliminary one. Moreover, it may be aimed more at trying to discourage passage in Congress of H.R. 5133 than any real effort to remove some formidable trade barriers.

On November 10, 1982, the Deputy United States Trade Representative, Mr. David R. Macdonald, submitted a report to the Chairman of the Subcommittee on Trade of the Ways and Means committee entitled "Japanese Barriers to U.S. Trade and Recent Japanese Trade Initiatives". The report states:

"Although the Japanese market in 1982 is substantially more open to foreign goods, services, and investment than it was only a few years ago, barriers to imported goods, services, and foreign investment still remain. Needless to say, Japan is not unique in maintaining barriers to foreign goods, services, and investment in its economy. All countries, including the United States, maintain certain barriers to trade and investment. Nor are all the barriers maintained by Japan inconsistent with her international obligations. However, a widespread perception persists among Japan's trading partners, including the United States, the European Community, and others, and not incorrectly, that the Japanese market remains relatively less open to foreign suppliers when compared to access for Japanese goods and services in their markets. This perception has resulted in increasing friction between Japan and her trading partners in recent years as the volume of Japanese exports and their percentage of world trade has grown considerably."

The following is some illustrations from this 75-page report and other sources of instances of barriers, both direct and indirect, to U.S. exports to Japan, as well as Japanese unfair practices regarding imports into the United States.

TARIFFS

The Japanese still maintain onerous tariffs on U.S. goods imported into Japan. These tariffs make U.S. goods overly expensive and restrict the market even where the U.S. product is much better than the Japanese equivalent.

Even with the Administration's much publicized May 28 package of tariff reductions, Ambassador David MacDonald reported to a Congressional committee on September 14, 1982 that significant tariff reductions were needed on: Wood and wood products, paper and paper products, unwrought magnesium, refined copper, beef, citrus, egg products, chocolate confectionary, feather and down bedding, harvesting equipment, tobacco product, leather and furskins, computers and computer parts, cash registers, photographic enlargers; and photograph files.

While there might be some justification for some tariffs on some of these goods, it should not be as high. Also, it is hard to believe that the Japanese can't fairly compete in photographic goods.

QUOTAS THAT VIOLATE THE GATT

The November 10, 1982 report by the U.S. Trade Representative indicated that Japan currently maintains quotas on 27 items which the U.S. believes violate the tariff provisions of the GATT. These include:

Leather.

Beef—in addition to a 25 percent tariff on imported beef, the use of a quota has the effect of raising the price of beef to over $12/pound.

Citrus—Japan uses "general" and "seasonal" quotas to exclude U.S. imports of citrus. Most quota allocations are to about 95 Japanese trading firms. In addition, seasonally adjusted tariffs range from 20 to 40 percent, and the tariff on juices range from 22.5 to 30 percent.

Fruit and Vegetable quotas limit imports of U.S.: grape and apple juice; tomato juice, ketchup and sauce; as well as other products available for U.S. export. These quotas are sometimes announced on an emergency basis, so U.S. exporters cannot predict or plan for them.

The May 28 reductions in quotas on 4 items (herring, prepared and preserved pork, hi-test molasses, and canned pineapples) are not of major interest to the U.S.

RESTRICTIVE STANDARDS, TESTING, LABELING, AND CERTIFICATION REQUIREMENTS

Japan's restrictive standards and approval procedures exclude foreign products from the market because of the prohibitive cost of establishing at the border that the product meets the requirements or delaying their entry, often long enough to allow Japanese manufactuers to introduce a competitive product.

Foreign companies are excluded from the Japanese voluntary standards-writing process operated through the Japanese Industrial Standards Committee so they often learn about prospective new or revised standards well after their Japanese competitors.

Japanese standards are often written in terms of design criteria rather than performance specifications. As a result, an American-made product may not be acceptable because of minor differences in design, even though these variations do not affect the product's compliance with the performance objective of the standards.

Japan refuses to accept test data developed outside Japan for many products, including pharmaceuticals and medical equipment. Testing is very expensive, as complete samples must be provided. Backlogs in Japan for starting testing on electrical and medical products, for example, are up to five or six months. The testing process itself can take another three to four months, and delays of one to two years have been cited in cases of medical equipment products. These difficulties would be resolved if inspectors from Japan visited and inspected the manufacturing site, or accepted U.S. product approval, but they will not do so.

According to the U.S. Trade Representative other standards barriers apply to: cherries, sake, dried fruit, concentrated fruit juice, processed foods, frozen bull semen, pharmaceuticals, cosmetics, autos, sporting goods, plywood and other chemical substances.

Examples of specific product standard issues from the November 10 report:

PLYWOOD

The Japanese Agricultural Standard (JAS) on structural plywood, written for domestic makers that use a hardwood to make plywood, specifies how the plywood should be put together (for example, how the plies should be assembled and bonded), rather than how the plywood should perform in use. The lowest grade plywood most commonly used for construction in the United States does not meet the standard, partly because it is made from softwood and partly because of U.S. production methods. For example, if the knot hole in the wooden panels exceeds the limit in the Japanese standard, the panel is rejected despite the fact that U.S. technical data demonstrate that the U.S. product equals or exceeds the performance characteristics of the Japanese produced product.

The U.S. plywood products industry has pushed for eight years for a new Japanese standard on structural plywood. Three years ago Japan with the United States to develop a mutually acceptable performance standard for structural plywood in 1980. Two years after the deadline has passed, we continue to hear about complex negotiations on "knot hole" size and the "white speck" problem, but U.S. exports still have not increased.

AUTOMOBILES

The Japanese Ministry of Transportation (MOT) has repeatedly turned down a U.S. request to recognize U.S. manufacturers' self-certification of automobiles to Japanese standards. The U.S. permits all auto manufacturers to self-certify compliance with U.S. regulations. The MoT still has not adopted administrative procedures to implement a May 1980 commitment to accept U.S. notaries public affirmations of the "dates of manufacture" of U.S. automobiles. "Dates of manufacture" are necessary in Japan to determine which year's regulations tests must be performed on U.S. imported automobiles.

There has been more than a two-year delay in resolving this standard issue, which is one of many in the automobile area.

TOBACCO PRODUCTS

The Japan Tobacco and Salt Public Corporation (JTS) is a government monopoly. JTS is obligated to buy all domestically produced tobacco leaf (some 140,000 tons annually) at prices three times the world price. (It also purchases some 70,000 tons of imported leaf.) In addition, JTS strictly controls sales of imported cigaretts, cigars, and pipe tobacco, permitting them to be distributed at only 20,000 of 250,000 tobacco products shops and selling them at much higher prices than domestic cigarettes. It enforces a ceiling on advertising expenditures that makes it difficult for U.S. brands, new to the Japan market, to gain market share. In addition, Japan imposes 35 percent tariff on imported cigarettes. The effect is that imported cigarettes sell in Japan for 55 percent more than comparable Japanese brands, even though their pre-tariff price when entering Japan is about the same price of Japanese brands.

As a consequences of these tariff and non-tariff barriers, the U.S. share of the Japanese cigarette market is still only slightly over 1 percent.

U.S. industry estimates of our potential share of the Japanese market in the absence of any barriers range upwards from 25 to 50 percent. Since each percent of market share is roughly equal to $50 million, the potential value of increased U.S. exports in this sector is between $1.2 and $2.5 billion.

[From the Japan Economic Journal, Apr. 13, 1982]

BOEING & AIRBUS INTENSIFY RACE TO HAVE JAL BUY PLANES

Boeing Co. and Airbus Industries S.A. have started an all-out drive to sell their aircraft to Japan Air Lines Co. which reportedly intends to replace its obsolete DC8 and Boeing 727 planes. While the U.S. company is interested in having the Japanese flag carrier purchase its B767 aircraft, the British-French-West German-Spanish joint manufacturer hopes to get JAL to buy its A310 aircraft.

The two manufacturers are keen on grabbing JAL orders as they believe successful sales to Japan will place them in an advantageous position to make sales to Southeast Asian countries.

Airbus Industries maintains Japanese purchase of its planes will ease the mounting trade friction between Japan and Europe. The company dispatched its president and chief executive officer, Bernard Lathiere, to Japan to request JAL president Yasumoto Takagi to buy Airbus planes.

Close on the heels of Lathiere has come Jacques Mitterrand, President and director general of Aerospatial, a major shareholder of Airbus Industrie. French President Francois Mitterrand appears likely also to support the Airbus sales during his visit to Japan this week. The French Embassy in Tokyo also is actively persuading the Japanese carrier.

Capitalizing on the sales of its jumbo jets and B727s to JAL, Boeing is earnestly intent on winning another JAL contract. Although the U.S. company has not sent high-powered executives as Airbus, it is more active in sales negotiations than the European company, according to JAL.

BOEING HOPES TO JOIN NEW YX PROJECT

Board Chairman Thornton A. Wilson of Boeing Co. of the U.S. said his company will assure delivery from early 1988 of Japan's planned aircraft series if the Japanese side chooses Boeing as the development partner. Wilson made the statement during his recent visit to Tokyo.

Meeting Japanese International Trade & Industry Minister Shintaro Abe, Wilson looked to Japan for a fast decision on launching its new YX or YXX series development project.

While seeking Boeing's participation in the YXX development project as in the preceding YX scheme, he promised the early delivery start if a good engine, preferably that now under development by British and Japanese engine makers and new lightweight fuselage materials, especially high technology compound types, are available, and the necessary funds are assured.

Observers believe his move represented Boeing's efforts to meet a current competitive attempt of its American arch rival McDonnell Douglas Corp. to win the chief partnership in the YXX project with Aeritalia of Italy and Saab of Sweden.

[From the American Metal Market, June 26, 1978]

FOREIGN PRODUCTION OF U.S. AIRCRAFT GAINS—JAPANESE $4.5-BILLION AGREEMENT WITH MCDONNELL, LOCKHEED EXAMPLE

(By Frank Haflich)

LOS ANGELES—Japan's signing last week of a $4.5-billion agreement for licenses for two models of American aircraft—100 McDonnell Douglas F-15 fighters and 45 Lockheed P3C antisubmarine patrol planes—marked another step in a trend toward greater overseas construction of U.S. planes.

Most domestic airframe builders agree that a refusal to share substantial amounts of production with offshore plants, or even handing over the prime construction and final assembly roles, would result in their exclusion from certain overseas procurement programs.

"If we made these the conditions for sale of the F-15 to Japan they would be flying something else," said a McDonnell Douglas spokesman.

"We're dealing with an increasingly technically sophisticated world. The day is past when United States military equipment can only be built here." A Lockheed spokesman expressed the same sentiments. "In certain cases it's the only game in town," he declared. "In order to sell a military program, you must provide a mutual benefit to the customer."

McDonnell Aircraft Co. division of McDonnell Douglas, St. Louis, will build 15 F-15s in this country. Mitsubishi Heavy Industries of Japan will construct the remaining 85 planes. McDonnell Douglas has declined to reveal the dollar amount of its contract. The Air Force pays from $15-million to $17-million for each one built in this country.

The Defense Department said the F-15 sale license to Japan will mean the return of $1.4-billion to the U.S.

In another aircraft program, Mitsubishi has built 210 of the older Lockheed F-104 Starfighters.

The Lockheed-California division of Lockheed, Burbank, Calif., will build three assembled P3Cs and four "knockdown kits" as part of its $250-million agreement with Japan. Kawasaki Heavy Industries is the prime builder on the remainder of the antisubmarine planes. Other Japanese contractors on the program include Mitsubishi, Shin Meiwa Industries, Fuji Heavy Industries and Japan Aircraft Manufacturing Co.

The engines in the Japanese-built F-15s will continue to be Pratt & Whitney Aircraft F-100 jet engines, but part of them will be made in Japan by Ishikawajima-Harima Heavy Industries, a P&WA spokesman said. He noted that project still needs the approval of the governments of the U.S. and Japan.

Initial T-54 turboprop engines for the P-3C will be built by the Detroit Diesel Allison division of General Motors Corp. under an arrangement similar to Lockheed's. Ishikawajima-Harima will gradually take over production of the engine in Japan.

Both McDonnell Douglas and Lockheed said parts and components of both airframes to be assembled in Japan will continue to be produced in the United States. One report indicated the Japanese will build only 40 percent of the F-15, although the non-Japanese work would presumably include the engine.

The F-15 would appear as likely as any American plane to retain a substantial part of its air frame. It is about 34 percent titanium by weight, a greater ratio than any other plane, and the U.S. currently has the overwhelming bulk of the world's capacity for fabricating sophisticated aircraft titanium parts.

Forgings typically account for a major percentage of airframe titanium, and Wyman-Gordon Co., North Grafton, Mass., is generally considered the forging house with the largest involvement in the F-15 along with Aluminum Co. of America's forging plants.

"Based on tradition, we don't anticipate there would be any major changes in the procurement of forgings," a Wyman-Gordon spokesman said.

The General Dynamics F-16 fighter, 1,388 of which are being built for the Air Force, is another current military plane with heavy overseas involvement. A consortium of four NATO countries is building 40 percent of 348 F-16s in Europe under subcontract to the Fort Worth company. Folker VFW of Holland is assembling the planes for the Netherlands and Norway while Sabca and Faire of Belgium are assembling aircraft for Belgium and Denmark. Fabrique Nationale of Belgium is assembling the engines, which are being built by Pratt & Whitney for the American version. DAF of Holland is building the landing gear under subcontract to Menasco Manufacturing Co., a subsidiary of Colt Industries.

The next major foreign fighter procurement is expected at the end of the year when Canada, which has established a budget of $2.34-billion for 130 to 150 aircraft, is expected to choose from among six fighter models.

In competition are the F-15, the Grumman Aerospace F-14, the General Dynamics F-16, the European-built Panavia Tornado and two versions of the F-18 built by McDonnell Douglas and Northrop Corp.

"Every one of the companies involved is, in one way or another, proposing some form of Canadian participation," said a spokesman for one of the builders.

Australia is also contemplating the purchase of 75 air defense aircraft and encouraging a co-production agreement. Although the requests for bids haven't been issued yet, aircraft mentioned as likely competitors include the F-15, F-16, the carrier-based F-18A and land-based F-18L, and the Tornado.

[From the Japan Economic Journal, July 15, 1980]

PRODUCING C-130 IN JAPAN IS GOING TO BE ADVOCATED

Leaders of the Ministry of International Trade & Industry are beginning to favor domestic production of the C-130 military transport in preference to its import from the U.S.

They are intending to take up the issue formally with the Defense Agency. The Defense Agency wishes to import the transport plane for transporting troops and equipment.

MITI feels that this Lockheed plane's construction in Japan would be better than import as this would help promote development of the aircraft and defense industries, and link up also with security.

As for the Defense Agency, it wants swiftly to strengthen the nation's defense capacity by advance enforcement of its medium-term administrative outlook, which provides for import of the C-130 and other equipment.

MITI, however, feels that everything simply should not be left up to import.

The Defense Agency now uses the C-1 military transport, developed with domestic technology. Its flying range is only 700 nautical miles, which, the Agency feels, is too short for being used in a military state of emergency.

It thus has set its sights on acquiring the C-130 which has a flying distance of 2,100 nautical miles. While Kawasaki Heavy Industries, Ltd. has played the chief role in building the C-1, the Agency has halted its production after the 24th plane, and has the intention of switching the remaining 12 planes to import of the C-130.

From such thinking, the Defense Agency has provided for import of the C-130 in its budget estimate for next fiscal year and informed MITI of its intention since the latter wields jurisdiction over industries.

While MITI authorities intend first of all to secure a detailed explanation from the Defense Agency officials on why they are insisting on import of the C-130s, they are going to insist strongly on the greater need for domestic production.

The CHAIRMAN. The committee will next hear from Secretary Baldrige.

STATEMENT OF HON. MALCOLM BALDRIGE, SECRETARY OF COMMERCE

Secretary BALDRIGE. Thanks. I will make the statement as brief as I can, but before presenting any remarks, Mr. Chairman, I would like to take a minute to discuss last night's action by the House.

The House voted for a local content bill by a very small margin. There were fewer aye votes than sponsors; in fact, they could not even muster an absolute majority. More significantly, the House adopted an amendment to the bill which will make implementation contingent on the United States living up to its international commitments.

We have not had a chance to analyze the precise implications in the legislation, but we do have two conclusions. First, that the floor debate on the House on the amendment clearly indicated that members of the House intended that the local content requirements not be imposed if they were in violation of our international trading commitments. Second, that the bill itself had very weak support in the House.

Some of the opponents of local content might be reassured by the House's action to weaken the requirements of the legislation, but I am not. For those of us concerned about the need to protect our economy from protectionism, this kind of legislation, no matter how weak, is still dangerous because at stake is the leadership role this country has provided in world trade for over 40 years, and any content measure will repudiate that leadership.

Because of this danger, Mr. Chairman, and I would say also because the legal implications of that amendment, I think, are going to be tested in court if this ever went through; it is not clearcut enough for us to say that that actually does weaken the bill. Because of this, the administration's strong position has not changed.

We oppose local content in any form. Local content is the job of illusorists and protectionists.

That it will insulate the auto industry from foreign competition and tinkering is based on several fallacies—that it will create hundreds of thousands of jobs in the automobile industry, and that is simply not true. It will not lead to significant job creation. It will lead to job destruction.

First, the direct exclusion of some foreign autos may temporarily create some additional U.S. jobs. However, that employment gain will be small. None of the jobs would be available this year or next year. The jobs created would be offset at least partially by direct job losses that the bill would produce.

We doubt that foreign auto manufacturers with U.S. plants would find it economical to produce vehicles in the United States to meet local content requirements.

This bill, by jeopardizing those economies, could well result in closure of assembly facilities already here, the disruption of present U.S. distribution systems, and would further reduce U.S. employment. We see Japanese manufacturers curtailing the overall level of exports rather than making additional investments to satisfy local content requirements. The decline in import volume would mean many import dealers would be forced to close or cut back, and those count as job losses.

Finally, the U.S. import facilities would suffer a substantial decline in employment. This has been estimated by the Department of Transportation to amount to as many as thousands of jobs plus indirect jobs at U.S. ports.

I think even more important than these, the direct job effects from this legislation would cause further dramatic job losses by instituting retaliation against U.S. imports. That would be a severe blow to American farmers, American workers. In the automobile industry, we estimate that for every billion dollars' worth of exports from here eliminated by retaliation, 25,000 jobs are lost for each billion.

Now, retaliation is not exactly the right word to cover the whole waterfront in this case. We have been the leader in free world trade since World War II. Not for eleemosynary reasons, but because free trade has benefited the United States more than any other single country. As a result, loss of free trade or growing protectionism could hurt the United States.

And I am afraid not so much of retaliation per se as I am of our loss of direction and leadership in this would allow other countries to slip into increasing protectionism because they could all point to the United States and say we did it, you did it, we can do it, too.

The second fallacy is that local content will save the U.S. automobile industry. It will harm, over time, the U.S. industry, locking in manufacturers at a 90-percent level, and it will keep them from seeking the lowest cost sources of supply while foreign manufacturers are free to cut their costs by purchasing parts wherever they find them. Consumers would suffer, prices would decline, fewer models would be available.

It will not strengthen U.S. trade policy. Local content would become a major setback for U.S. trade policy. If the bill becomes law, Japanese and other trading partners would have no reason to take seriously our efforts to remove trade barriers.

We recognize the industry has problems. We believe the problems of the industry will not be solved by erecting trade barriers. They will be solved by providing an economic environment in which U.S. automobile companies become more competitive domestically and worldwide.

So to sum up, Mr. Chairman, this is not a jobs creation bill. I think it is a job loser. It really shuffles the employment deck across the whole economy and deals us all fewer cards because of economic trade. We have never benefited from protectionism. We will not benefit this time.

Some wise man once said, "Good judgment comes from experience, but experience comes from bad judgment. "Now we have had the experience of bad judgment in the Smoot-Hawley tariff. That bill dried up world trade by some 60 percent, and the effect that had on prolonging the Depression is still impossible to calculate.

This bill is not the way to send a message to the Japanese. We have other ways to do that. This bill is not the vehicle for doing that. It is not going to assist in the recovery of the auto industry. The economy is going to have to take care of that.

Mr. Chairman, I cannot find one reason to say a good word about this bill.

With that, I will close, and I thank you for allowing me to testify.

[The statement follows:]

STATEMENT OF HON. MALCOLM BALDRIGE, SECRETARY OF COMMERCE

Mr. Chairman, I appreciate the opportunity to testify on automobile local content legislation. The Commerce Department is responsible for coordinating administration policy regarding the automotive industry. Because the bill, if enacted, would have very serious trade consequences, Commerce has closely coordinated its work on the trade effects of local content legislation with the United States Trade Representative.

The administration strongly opposes such legislation. Local content is protectionist, and will insulate the auto industry from foreign competition. Tinkering with the mechanics of S. 2300 will not make it acceptable. Adjustments in the formula for determining the domestic content of a vehicle, in the percentage of U.S. content required, in the sanctions for violations, or in the phase-in period for the content requirements, will not diminish our opposition.

Protectionism and quotas are not the solutions to the problems of the United States auto industry. Such measures inevitably backfire, and though they may yield some short-term benefit of one sector of the economy, they adversely affect the economy as a whole.

Mr. Chairman, support for local content seems to be based on several fallacies.

EMPLOYMENT

The first fallacy is that it will create hundreds of thousands of jobs in the auto industry.

Local content legislation will not lead to significant job creation; it could even lead to job destruction. The interagency task force organized to study this issue, on which eight agencies were represented, estimates that significant local content requirements will not produce dramatic increases in auto-sector jobs. True, the exclusion of some foreign autos, if other foreign manufacturers do not "take up the slack," could create some additional demand for U.S. cars. But the number of auto-related jobs created would be small. None of these jobs would come on line this year or next year. Meanwhile, the adverse effects of the bill could begin immediately, including the loss of jobs in other sectors.

Any job creation estimate must be weighed against the job losses that this bill could cause if it ever became law. We believe these direct job losses could arise in three principal areas—U.S. assembly facilities of foreign auto manufacturers, the imported car dealership network, and U.S. ports receiving foreign cars.

First, we doubt that foreign auto manufacturers with U.S. plants will find it economical to produce vehicles in the United States if they are required to meet substantial local content levels. Foreign auto makers, (Volkswagen, Nissan, and Honda) have determined, without any statutory requirement to do so, that certain economies can be obtained if a portion of their cars sold in the U.S. is assembeld here. Such legislation, by jeopardizing these economies, could result in the closure of the assembly facilities. Moreover, if local content were enacted, the significant increase in costs to meet higher local content levels that would be required for even modest volume increases could render additional investments unprofitable. If the present facilities were to be closed, direct and indirect jobs lost would be 25,000 workers. In addition, an estimated 10,000 jobs will not be created if VW's planned Sterling Heights, Michigan facility is not opened.

Those Japanese auto manufacturers without assembly plants in the United States will not relocate production to this country. Why should they build U.S. plants to produce cars on which they would lose much of the present cost advantage that they get from building in Japan? Why should they try to compete under such conditions, when it would be to their advantage to make up their U.S. losses in the growing world market, especially given their price advantage over American cars in that market—an advantage that would increase if local content legislation is enacted?

Second, we believe that disruption of the present U.S. distribution system for Japanese cars would further reduce U.S. employment. We see Japanese manufacturers reducing their overall level of exports and shipping only as many high priced, luxury cars as the bill would allow without making additional investments to reach higher local content levels. This decline in import volumes would force many import dealers to close or cut back, with resulting job losses.

Finally, U.S. port facilities that handle imported cars would also suffer substantial declines in employment. The Department of Transportation has estimated that local content requirements could lead to a loss of as many as 12,000 direct jobs, plus additional thousands of indirect jobs, at 14 major U.S. ports.

Even more important than these direct job effects, local content would cause further employment losses by igniting retaliation against U.S. exports. The result would be a severe blow to American farmers and American workers in non-auto industries. One of every three farm acres and one of every seven manufacturing jobs in this country depend on exports. Lost exports mean lost jobs. We estimate that for every $1 billion of U.S. exports eliminated by retaliation, 25,000 jobs could be lost.

HELP TO AUTO INDUSTRY

The second fallacy is that local content will save the U.S. automobile industry.

In fact, it would harm, not help, the auto industry. "Locking in" U.S. manufacturers at a 90 percent level of local content will prevent them from seeking the lowest cost sources of supply. Thus, while foreign manufacturers would be free to cut costs by purchasing parts wherever supplies are best and least expensive, U.S. companies would be hamstrung.

The consumer will also suffer under a local content law. Imports will decline and car prices will go up. The consumer would not be able to choose among the wide variety of models, prices and performance levels available today.

What does this mean? More expensive American cars, certainly. But also the end of the "world car" concept here—under which a car is built with parts purchased from lowest cost suppliers, maximizing efficiency and lowering costs.

U.S. TRADE POLICY

The third fallacy is that local content can strengthen U.S. trade policy.

By contrast, local content would be a major setback for U.S. trade policy. Since the end of World War II, every administration and Congress, with bipartisan support, has pursued the goal of trade liberalization. If this bill becomes law, the Japanese and our other trading partners will have no reason to take seriously our efforts to remove trade barriers. America will have repudiated its traditional leadership on free trade by erecting massive barriers for autos.

The damage that local content would do to our trade policy is equalled by its threat to U.S. exports. It will violate the letter and spirit of the General Agreement on Tariffs and Trade (GATT). If the United States violates the GATT, as this bill would, we will be required to reduce tariffs on an amount of goods equal to the cost of the violation. If we failed to reduce tariffs, other countries could take retaliatory measures to keep out the same volume of U.S. goods. Our protectionist step would invite more of the same by other nations. How far retaliation would go is uncertain, but enactment of this legislation will inevitably put an additional severe strain on our trading relationships.

There are supporters of this legislation who claim it will "send a message to the Japanese" about that nation's trade policies. Frustration with Japanese trade practices is understandable, but protectionism is not the way to achieve a lowering of trade barriers.

During the past eighteen months, this administration has constantly sought to improve trade relations with Japan:

Five Cabinet officers have visited Japan to underscore the importance of an early resolution to our trade problems;

Ambassador Mansfield has made it clear that continuing trade tensions threaten our overall trade relationship;

U.S. trade officials have met on a regular basis with Japanese agencies to press for dramatic changes in Japanese policies.

In response, the Japanese Government has taken three major steps;

In November 1981, the Japanese Government announced tariff reductions, in advance of the timetable agreed to in the multilateral trade negotiations, covering more than 1600 items;

In January, the Japanese Government identified 87 specific trade barriers and promised action on 63;

In May, the Japanese Government put forward a second package of market opening measures, including steps to correct monopolistic practices in the distribution system and restrictions on foreign participation in Japanese Government-sponsored R&D. Prime Minister Suzuki also called for an end to all forms of public and private discrimination against imports and foreign investments.

These actions have not always been as effective as we would like. Our government is holding monthly follow-up meetings with the Japanese Government to assess the real value of the measures to U.S. business. To date, this can be said about our progress:

Some actions, such as the tariff cuts and improved customs and product testing procedures, appear promising;

The various packages, however, contain no effective measures to deal with major structural barriers in the Japanese economy—including target industry programs, preferential relationships within the major Japanese industrial/financial groups, special protection for depressed industries, and import cartels; and

Former Prime Minister Suzuki's call for an end to discrimination against foreign business has not produced results. Without a thoroughgoing change in private and public attitudes at all levels, real progress is far off.

The Cabinet Council on Commerce and Trade, which I chair, has requested the United States Trade Representatives to lead an effort to develop a long-term strategy addressing our economic relations with Japan. Our aim is to obtain an equitable standard of access to the Japanese economy and, at the same time, to provide a credible counter to Japanese policies affecting key U.S. industries—without the high costs of protectionism. Local content legislation is protectionism that does not serve this aim.

THE U.S. AUTO INDUSTRY

Since its first days, the Reagan administration has recognized that the American auto industry has serious economic problems. Early on, we constructed a program to address the problems. This program combines economic recovery with tax and regulatory relief. We have created the office of automotive industry affairs within commerce to coordinate the administration's auto activities.

The industry's problems do not result solely from imports, and cannot be solved by excluding imports. U.S. sales of imported cars increased by only 300,000 units from 1978 to 1981, while sales of domestic cars fell by 3 million units. The decline in sales of U.S. made cars, not the increase in the volume of imports, has greatly increased the market share of imports.

Many factors, not one, account for the industry's recent difficulties: First, back-to-back recessions; second, a slow-down in the rate of growth of long-run demand for new cars; third, international competition. The first problem will be corrected by economic recovery, which I believe it is about to get underway. The second and third factors, by contrast, are basic challenges to the industry.

Auto demand has been affected by population changes resulting in a slower increase in the number of new drivers. It is also depressed because a smaller share of income has been available for car payments, as other auto costs (gasoline, insurance, and repairs) have risen. From 1978 to 1981, the overall costs of new car ownership climbed by 55 percent, while the CPI increased by 39 percent and disposable personal income by only 33 percent. Consumers have relatively fewer dollars to spend on a product which has become increasingly expensive to purchase and operate. The result is that consumers have been deferring the purchase of new cars.

Many American consumers have come to believe—rightly or wrongly—that foreign cars are better made and offer better value than domestic cars. U.S. producers know this, and they have made enormous investments over the last several years to develop high quality cars that are priced competitively and operate economically. They are succeeding, but it will take time. With import protection, however, much of the incentive to make these changes will disappear.

We recognize that the American auto industry still needs help. But, we believe that the problems of the industry will not be solved by enacting trade barriers. They will be solved by providing an economic environment in which the U.S. auto companies become productive and more competitive domestically and worldwide. The administration has a program of economic incentives, regulatory relief, and trade liberalization aimed at achieving those goals.

To sum up, I want to stress the following points:

1. Local content legislation is not jobs creation legislation. It could well become jobs destruction legislation. It merely shuffles the employment deck across the whole economy, and deals us all fewer cards.
2. Our economy has never benefited from protectionism, and it will not benefit this time.
3. Local content is not the way to "send a message to the Japanese". We do that by continuing to press hard for trade liberalization, not by inviting trade retaliation.
4. Local content will not assist the recovery of the U.S. auto industry. The American auto industry will improve as our overall economy recovers, and as management and labor continue their efforts to strengthen the industry's international competitiveness.

As a final note, Mr. Chairman, I want to state my appreciation for your decision to convene there hearings. I will be happy to answer the committee's questions at this time.

The Chairman. Mr. Secretary, thank you. I am going to, if you do not mind, submit some questions to you in writing that I would otherwise ask, but I must be going in order to vote on a bill on unemployment compensation.

[The information referred to follows:]

Questions of the Committee and the Answers Thereto

Question. Please compare the three major versions of automobile domestic content legislation that surfaced during the 97th Congress: S. 2300; H.R. 5133 as reported by the House Committee on Energy and Commerce; and H.R. 5133 as passed by the House on December 15, 1982. Do you oppose all three versions? In particular, please comment on the action by the House to amend H.R. 5133 to provide that "nothing in this Act shall be deemed to supersede the terms and conditions of any treaty, international convention, or agreement on tariffs and trade which is in existence on the date of enactment of this Act and to which the United States is a party."

Answer. The original proposal had a very negative impact on the U.S. economy. Administration studies concluded that the bill would be inflationary, that it would raise the average price of an automobile 10 percent, and that it would cost the economy $3-5 billion. In addition, the original bill could have led to a net reduction in jobs for the country. Even though some jobs would have been created in the auto industry itself (no more than 200,000), these would be substantially offset by job losses among import car dealers, the ports, and the foreign-owned auto plants. The almost certain trade retaliation would increase the number of jobs lost.

H.R. 5133 as reported by the Energy and Commerce Committee is somewhat less severe and provides much greater latitude to the foreign manufacturers in meeting its requirements. Nevertheless, our conclusions match those of the Congressional Budget Office:

". . . the economic effects of the proposed substitute bill—both its benefits to the U.S. automotive industry and its costs to the rest of the economy—would be of lesser magnitude than those estimated for H.R. 5133. Nevertheless, although the potentially negative effects overall are reduced, they would not be completely eliminated."

H.R. 5133 as passed by the House differed from the bill reported by Committee in two respects. The amendment quoted in your question was added, along with one which would have required the Secretary of Agriculture to report to Congress within 1 year after enactment on the bill's impact on agricultural exports. The floor debate on the former amendment clearly indicated that the members of the House intended that local content requirements not be imposed if they were in violation of our international trade commitments.

While some opponents of local content may be reassured by the House's action to weaken the requirements of the legislation, I am not. For those of us who are concerned about the need to protect our economy from protectionism, this kind of legislation, no matter how weak, is dangerous. At stake is the leadership role this country has provided in world trade for over 40 years. Any content measure will repudiate that leadership. Once lost, it may never be regained. Because of this danger, the Administration's strong opposition has not changed.

Question. If you do not support a local content bill, how do you plan to address the industry's problems?

Answer. As we have stated many times, the industry's current difficulties stem in large part from the problems of the overall economy. Car sales are down, and we see little sustained improvement until consumers sense that interest rates will continue at reduced levels and that employment will improve. We expect general economic recovery to provide the industry with an opportunity to increase its sales.

We are actively working to reduce the regulatory burden on the industry. Final action has been taken on 26 regulations affecting the auto industry, decisions are pending on 3 more, and action on 5 others is the subject of preliminary notice of hearings.

We have supported tax programs that have directly benefited the industry, and we continue to support changes in the Clean Air Act which will provide additional relief from overly harsh requirements.

Title III of the Job Training Partnership Act provides Federal funds to the States on a matching basis to run reemployment services training programs for dislocated workers.

Question. Can the U.S. auto industry survive without a local content requirement?

Answer. Yes. The U.S. companies are investing massive amounts of capital to address their competitive problems, and labor and management are working together to improve productivity and hold down costs. We have not given up on the abilities of the U.S. auto industry. Their efforts, however, will be hindered by any law which insulates the U.S. industry from foreign competition.

Question. Proponents of this legislation argue that a local content law will result in more foreign auto companies manufacturing autos in the Unites States. What is your view of this?

Answer. We do not believe this will occur. We do not believe the Japanese will expand U.S. plant capacity. To do so would disrupt the extremely efficient production base in Japan in order to construct vehicles which do not have the sales volume to economically support an assembly plant. Why should they begin producing in a country where an entirely new manufacturing system will have to be constructed? Why should they increase their cost significantly to add capacity they do not need?

Question. What are the implications of the revised H.R. 5133 for U.S.-Canada auto trade?

Answer. The revised bill threatens the U.S.-Canada Auto Pact. The bill runs counter to the concept of an integrated market by treating Canada like any other country. Exports to Canada would add to a manufacturer's local content, imports from Canada would reduce local content. The Canadian Government would have to react, either by implementing its own local content provisions or by jettisoning the Auto Pact. Under either Canadian response, U.S. auto manufacturers would be saddled with inefficient production facilities, further reducing their competitiveness. This legislation could be the opening salvo which could unravel U.S. trade with its largest trading partner.

Question. What is the current status of Honda and Nissan's plans to build vehicle assembly plants in the United States? How much American content will be incorporated into the cars and trucks produced at these facilities?

Answer. Honda Motor Company began automobile production at a new automobile plant in Marysville, Ohio, this fall following an investment of over $250 million. Initially, U.S. content is reported by Honda to account for 50 percent of the total value of cars produced at the Marysville plant; this percentage is expected to increase in subsequent years. Once full production levels are reached in mid-1984, Honda will employ 2,000 U.S. workers and produce approximately 150,000 cars per year.

Nissan Motor Company has started construction of a compact pickup truck assembly plant in Smyrna, Tennessee. This $300 million facility is expected to open in July or August 1983. Once the plant is completed, Nissan expects to turn out 120,000 pickup trucks a year. Domestic value added is forecast by Nissan to initially account for a least 40 percent of the total value of trucks assembled at the plant, and to increase to 50 percent of more in subsequent years.

Both Honda and Nissan have testified in oppsition to this legislation and stated that its enactment would make it difficult to continue U.S. assembly.

In addition to these two new facilities, Volkswagen began U.S. assembly operations in 1978. In September 1982, Volkswagen testified that it opposes local content legislation. The company said that under present conditions it could meet the content requirements of H.R. 5133. But adverse exchange rates could move the company out of compliance and the content requirements would limit marketing flexibility.

Many foreign auto parts firms have U.S. manufacturing facilities, but to our knowledge, these firms have not taken a public stance on the bill. It is reasonable to assume that an increase in the sale of U.S.-made auto parts could result from enactment of a local content law. However, these firms could also lose sizeable export sales through trade retaliation measures taken by our trading partners.

Question. Will the Administration push for the Japanese to continue restraining their auto exports for a third year?

Answer. I personally believe that a third year of restraint is necessary. It is appropriate, however, to give the Japanese Government an opportunity to take a position before we decide whether or not to take the initiative.

If local content legislation is enacted for 1984, it is unlikely that the Japanese would consider voluntarily limiting their U.S. exports in 1983.

Question. What is the net result—in terms of resolving bilateral trade problems—of the two Japanese trade "packages" announced earlier this year?

Answer. We have made real progress on customs clearance and there has been some improvement in product testing procedures. Tariff reductions may be of some value to U.S. exporters—although most are only accelerations of tariff concessions we had already paid for in the Multilateral Trade Negotiations and several items of particular interest to the U.S. have been excluded.

On the negative side, while the announcement concerning enforcement of the antimonopoly law has resulted in a welcome increase in activity by the Japan Fair Trade Commission, it has not deterred plans for formation of import cartels in such areas as petrochemicals and lumber. Nor has the promise of free trade in high technology products improved U.S. market access in this sector. Long standing problems in leather, metal baseball bats, and tobacco remain, and the important issue of agricultural quotas has not been resolved.

The most encouraging single element in the two packages was the statement by Prime Minister Suzuki appealing for an end to public and private discrimination against imports and foreign investment. This change in attitude has not taken place.

Overall, the "packages" have not resolved the fundamental issue of equitable access for U.S. business. They have failed to deal with the anti-import biases which are built into Japanese public policy and private practice.

Question. In view of the widespread protectionism in other auto producing nations, why does the Administration continue to oppose legislative restrictions on U.S. imports of passenger cars?

Answer. It is true that certain other countries impose local content requirements on motor vehicles sold within their borders. However, practically all of them are developing countries which are allowed under international trade law to maintain such rules. The GATT recognizes and provides for the need of developing countries to promote particular industries and to protect them from import competition with measures over and above those allowed for developed countries.

In contrast, the establishment of local content requirements in the United States or in any other developed country would violate specific GATT provisions. This means that our trading partners would be able to retaliate against U.S. exports in all industry sectors.

I would also like to note that no other advanced industrial country, neither our European trading partners nor Japan, maintains local content requirements.

Australia is the only developed country which has a local content law. In 1980, Australia produced 400,000 motor vehicles, just 5 percent of the United States. Australian consumers and the country's motor vehicle industry, which remains highly inefficient, have clearly paid the price of such protectionist policies.

Enactment of S 2300 or other local content requirements by the conceded leader of the GATT movement would be viewed as a signal that GATT rules need no longer govern domestic decisions involving international trade. Particularly in view of the intense protectionist pressures currently existing in the international market due to the economic recession, enactment of such legislation coiuld have a domino effect of frightening proportions.

Enactment of such a highly trade restrictive law would jeopardize the U.S. position in both on-going and future efforts to liberalize trade. It is clear that our trading partners would make no effort to comply with U.S. requests to open their markets if the U.S. itself were to close off a very major segment of its own market.

Question. Does Japan have a local content requirement for aircraft purchased and operated by Japanese airlines?

Answer. The Government of Japan does not have a formal local content requirement for aircraft purchased by Japanese customers.

Japanese aircraft companies are producing about 17 percent of the value of the airframe of the Boeing 767 wide-bodied, two-engined aircraft, which was introduced into service September 8, 1982, by United Airlines. The Japanese consortium is a risk-sharing subcontractor to Boeing on the 767 program. One Japanese airline—All Nippon—has ordered 25 of the 767s as of August 9, 1982.

Boeing's rationale for the risksharing subcontract with Japanese companies was based primarily upon two points:

1. The necessity for spreading the cost of development of the 767. Boeing could not carry the program alone and needed risksharing help. Aircraft companies in Japan and Italy were able to respond.

2. The fact that Boeing had tried and failed to obtain risksharing help from its U.S. suppliers.

Question. Please enumerate the assumptions that underlie your analysis of the economic impact of H.R. 513. What are the principal differences between this set of assumptions and the assumptions made by the United Auto Workers in its study? What justifies your approach in each instance?

Answer. The United Auto Workers and the Administration used two different approaches to analyzing H.R. 5133. The UAW used a statistical approach which held various relationships constant during and following the market impact of a severe import restraint. The Administration used an econometric simulation designed to represent consumer buying choices over five different auto market segments. The model simulated the way in which consumers could be expected to react to a severe reduction in imports. Consumer behavior was based on historical relationships.

Because of this, we believe our approach results in a more accurate reflection of the possible impact of this legislation. It is worth noting that despite repeated requests, the UAW refused to present its methodology to the Administration. The only knowledge we have of their approach is contained in an analysis published by the Congressional Budget Office in August 1982. It should also be said that the UAW has not revised its jobs creation estimates following a complete revision of H.R. 5133 made by the Energy and Commerce Committee in September 1982. A description of our approach, the UAW's and a different approach taken by the CBO is contained in the CBO report.

Question. Please compare the Administration's study of the economic impact of H.R. 5133 with the similar study conducted by the Congressional Budget Office. Do you agree with CBO's conclusions?

Answer. CBO thoroughly studied the original version of H.R. 5133, and while their assumptions and model differed somewhat from those used by the Administration's interagency task force, their conclusions support our view that the overall effect of local content on the American economy would be negative.

CBO has also made an assessment of the substitute version of H.R 5133. It has concluded that "the proposed amendment, like the original bill, would in effect impove an import quota on foreign-produced autos and auto parts. Any quota would stimulate production and employment in U.S. auto and auto-related industries. For the total U.S. economy, however, the net effects of the substitute bill in terms of real economic growth, inflation, and employment would be slightly negative, assuming that the United State's trading partners retaliated in kind. In other words, the benefits that would accrue to the U.S. automotive industry would still probably be more than offset by the costs imposed on the rest of the economy, despite the more lenient provisions of the Ottinger substitute." We agree with these conclusions.

Question. Are U.S. firms or individuals free to establish an automobile retail dealership in Japan? What formal or informal barriers exist to the establishment of such a dealership?

Answer. To our knowledge U.S. firms and individuals can establish automobile retail dealerships on the same terms available to Japanese nationals. While formal barriers existed in the past, recent liberalization measures taken by the Japanese Government on investment restrictions eliminated these barriers.

The dealership system in Japan consists of both company owned and independent dealers as opposed to the United States were the dealers are independent franchise holders. Japanese custom and traditions probably makes it very difficult for non-Japanese to open dealerships. In addition, land availability and extremely high land costs makes opening a dealership very difficult and risky. The low volume of U.S. cars sold in Japan would not justify such a venture. The largest imported car dealer in Japan sells Volkswagen, Mercedes-Benz, and GM cars. Ford cars are sold by dealers dualed with other foreign manufacturers.

Question. If Japan lifted all discriminatory barriers to sales of U.S. cars in Japan, would the U.S. share of Japan sales increase significantly?

Answer. Japan still maintains many formal and informal barriers to the sale of U.S. made cars in Japan. The Administration is taking every opportunity to have these barriers eliminated. However, even if our efforts were completely successful, it is doubtful that U.S. car manufacturers should substantially increase their sales in Japan. This is due primarily to two reasons:

U.S. car manufacturers would need to set up a separate assembly line to manufacture a right-hand drive care which met Japanese safety and emission standards and Japanese quality expectations.

U.S. manufacturers would be competing in Japan against domestic manufacturers which have a significant manufacturing cost advantage.

Consequently, for these and other reasons, I would not be very optimistic that U.S. auto manufacturers would be able to significantly expand sales in Japan if all Japanese import barriers were eliminated.

The CHAIRMAN. We will recess these hearings temporarily until Senator Ford gets back. When he returns he will go ahead and start, and we will hear from Mr. Warden.

[Recess taken.]

Senator FORD [presiding]. I surprised everybody and got back quickly.

The next witness will be Dick Warden of the UAW. Hold it just a minute, Dick, until we get everybody settled down. Everybody is interested in your statement.

All right, Mr. Warden, you may proceed.

STATEMENT OF DICK WARDEN, LEGISLATIVE DIRECTOR, UNITED AUTO WORKERS, ACCOMPANIED BY LEE PRICE

Mr. WARDEN. Thank you very much, Senator Ford.

First of all, I would like to say that we are very appreciative of the Senate holding the hearing this morning, and we are grateful to Senator Ford and other cosponsors of this legislation who have introduced this bill and who have supported it.

The UAW obviously is a strong supporter of S. 2300, the so-called domestic content legislation, which is officially titled the Fair Practices in Automotive Products Act. We were gratified, to say the least, by the House action of last night by passing the House companion piece of legislation to S. 2300 by a vote of 215 to 188. I think it is worth noting that that vote was bipartisan. We had strong support from Republicans and Democrats alike.

As I said, we are very grateful to Senator Ford and the 20 of his colleagues who have cosponsored the legislation in the Senate. It would be our hope that the Senate could move and pass this legislation, as the House has done, before the end of this lameduck session.

I would also like to apologize for the fact that Doug Fraser, the president of the UAW, was unable to be here this morning. He is chairing a meeting of our international executive board today and he just could not get away. It is a very key meeting, and he wanted me to express his regrets to Senators Ford, Packwood, and other members of the committee, because he did very much want to be here.

The statement that we have prepared for the record is President Fraser's, I have no intention of reading this entire statement, recognizing the admonition by the committee staff that we should limit ourselves to 5 minutes.

Senator FORD. The total statement will be in the record.

Mr. WARDEN. Thank you very much, Senator.

As I say, we are delighted to be here this morning, delighted that the Committee on Commerce is holding this hearing, and delighted to have this opportunity to share with you and the members of the committee our views on this important legislation, which Senator Ford introduced some months ago and is now cosponsored by about 20 of his colleagues.

The 4-year crisis in the U.S. auto industry has cost the jobs of 1 million workers employed in the industry. Despite the depression conditions—and they are no longer what we consider a recession; they are far and away beyond that. It is clearly a depression in many parts of the country. But despite these conditions, imports of vehicles and parts, particularly from Japan, have soared, aggravating the domestic industry's plight.

The United States in our judgment can no longer afford to have a passive trade and industrial policy toward the industry, when all other major auto producing nations are promoting their industries, pushing their exports and preventing increases in imports.

The Fair Practices in Automotive Products Act, S. 2300, is designed to defend our industry in light of practices prevailing around the world. It is our view, Mr. Chairman, that without a healthy automobile industry, because it is so fundamental to the basic economic health of our society, it is going to be very difficult to achieve any kind of economic recovery in this country.

Currently, U.S. new car and light truck production represent three-quarters of the value of automobile sales in America. That is a significant number, I think. It is now three-quarters of the sales in our market. Without any action by the U.S. Government such as the domestic content legislation, we estimate that that ratio can be expected to fall to one-half by 1990.

This may not seem like a large problem, but it is a gigantic problem, we believe, not only for the automobile industry itself but for supplier industries and the hundreds of thousands of workers whose families depend upon these industries for their livelihood.

We are facing a serious economic problem in this country that this bill attempts to address. It does so, we think, in a way that is clearly in the national interest. The failure to pass this legislation, we believe, stabilizing our production to market ratio essentially at three-quarters, where it now is, would be very costly to the economy, to hundreds of thousands of workers and their communities, and to government budgets at all levels.

The bill would result in more than 700,000 jobs created or preserved in the automobile and related industries by 1990. That is our estimate. I know that it is inconsistent with some of the estimates that have been made by other reputable authorities. We have addressed some of the other studies that have been done with respect to the projected impact of this legislation.

One of those analyses of another study is contained as an appendix to our prepared testimony that has been filed for the record. I am referring now specifically to our response to the CBO study which is cited so frequently by those who are concerned about this legislation. Our response deals with the various points raised by that study.

With the ripple effect beyond the 700,000 jobs created or preserved in auto-related industries, we estimate that there would be—and this, by the way, is based upon a multiplier effect which was contained in the CBO report—we estimate that the ripple effect with that multiplier from the CBO study, would be more than 1 million jobs preserved or created throughout our economy by the passage of this legislation.

We believe this legislation would lead to substantial investment and purchases here by foreign automobile companies, which now enjoy a huge market here. As has been pointed out by other witnesses this morning, ours is the only open automobile market in the world. So long as that situation exists and so long as the Government does not take any action to deal with that problem, I think we will continue to have the same kind of problems related to the flood of imports in this country that we have been experiencing. Those problems, in our judgment, will be exacerbated.

So the one objective of this legislation is really to try to deal with the structural problem in the automobile industry by encouraging investment by manufacturers, who have a huge market in this country—to make some investment in this country and to create some jobs where they have this huge market.

The second basic purpose of the legislation is to do something about what we call foreign out-sourcing by U.S. companies. Right now, Mr. Chairman, all of the domestic companies, including Volkswagen of America and AMC-Renault, and including the big three or big four, depending on how you want to use the term, would be in compliance with the legislation as it was modified over in the other body.

That is a fact that people have overlooked. The formula has been substantially changed in that other bill, and our statement gets into that to some extent. But there is no question that the manufacturers here in this country today would meet the requirements of the legislation with respect to their sourcing obligations. This purpose of the bill is an attempt to prevent what is now happening in this economy, that is the export of jobs by our domestic manufacturers. This is becoming an increasingly serious problem and something that we also think must be addressed.

S. 2300 as introduced by Senator Ford addresses both of those problems. It is an investment bill, it is a jobs bill. We believe it is a bill that serves the interests of our country and we hope that the

Senate will take positive action on this legislation, as the House has done.

We believe also that the bill provides more than an adequate phase-in time. As a result, U.S. consumers would continue to have the range of product offerings that they desire. Because U.S. companies would continue to face stiff competition, there should be little increase in U.S. car prices.

I was interested in the comments by some of the other members of the committee, but also witnesses in responding to questions, about the effect of this legislation on price. We do have a precedent that relates somewhat to this legislation. Senator Danforth referred to this problem and Senator Danforth also referred to the fact that he had been the sponsor of an auto quota bill about 2 years ago.

I think most independent observers would attribute to that effort in the Senate some motivation in getting the negotiations going with the Japanese which led to the voluntary agreement. One of the arguments that was used against that bill introduced by Senator Danforth and sponsored by a number of other Senators, and against the voluntary agreement was that it would result in a price increase to American consumers.

The experience under that voluntary agreement indicates that that has not been true and that those arguments were not valid. We believe that the competitive yardstick which a lot of people are concerned about is something that is important for the domestic manufacturers. When I say domestic, I mean traditionally domestic manufacturers.

I think the fact that VW has been in this country producing cars has produced a good yardstick for the other companies, but we think this legislation maintains that yardstick and we think it is important. When people argue that this is a protectionist bill, our response is, it is the antithesis of protectionism in the sense that it is trying to bring others into this market, where they have huge sales that are worth billions of dollars a year.

We believe a competitive yardstick would be maintained and that consumers' prices would be affected only negligibly, if at all, by this legislation. Reciprocity legislation frequently comes up in these discussions as a possible alternative. We believe it is not an acceptable alternative to S. 2300 because reciprocity legislation does not address the problems that S. 2300 is trying to deal with.

One is investment in this country, and reciprocity legislation really does not deal with that. The creation of jobs, trying to do something to help the industrial base in this country, may or may not be affected by reciprocity legislation.

Other nations have vigorous automobile policies and they are well entrenched. We cannot afford in the United States, in our view, to neglect the problems of our rapidly eroding industry while we negotiate with other nations about their auto policy. We must instead adopt an industrial policy of our own. In our view, we do not have one today.

We were encouraged at an earlier time when there was an attempt to try to establish an auto industry task force, a tripartite approach to try to deal with these problems and to grapple with them with all the parties that need to be involved around the table—industry, labor, and Government. We were encouraged by that, and we wish that were still happening. It is not, unfortunately.

We believe that we must have an industrial policy in this country, an auto industrial policy. And we want to be clear about one thing which comes up repeatedly in discussing this legislation, that is, what this legislation would do and would not do.

In our view it would not start a trade war, as its detractors have claimed. The bill relates to a single industry and phases in over several years. Rather than isolate the U.S. economy, the bill encourages foreign companies to participate in the U.S. market.

Again, Mr. Chairman, I would like to thank you very much for holding this hearing and to extend to you the apologies of President Fraser of the UAW, who is presiding over a meeting of our executive board and could not get away. He wanted to be here today for this hearing. He wanted me to express his appreciation to you, Mr. Chairman, for calling this hearing and to the members of this committee for this opportunity to share our views with you about this legislation, which we believe is so important.

I am accompanied this morning by Mr. Lee Price, who is a trade economist and lawyer in our research department and who has done much of the substantive work on this and related issues. And he and I are prepared to respond to questions that you may raise.

Thank you.

The **Chairman** [presiding]. Mr. Warden, I am used to you being a surrogate. I remember the morning you testified on tuition tax credits.

Mr. **Warden**. Do not remind me.

The **Chairman**. Wendell, questions?

Senator **Ford**. Mr. Warden, you alluded to the House-passed legislation and that they basically have changed the formula for S. 2300. If I am correct, you said that the basic domestic industry in this country could now comply with the House-passed legislation?

Mr. **Warden**. Yes, sir.

Senator **Ford**. What do you mean, "can comply"?

Mr. **Warden**. I mean the automobile companies producing in this country—GM, Ford, Chrysler, Volkswagen of America, AMC-Renault, and we believe Honda of America—will be in compliance with this legislation when it finally takes effect in 1986. And we believe the others will, too. But at current production levels the ones that are now producing in this country would be in compliance with this bill as it passed the House.

Senator **Ford**. How much out-sourcing is now being done in the sale of so-called American-made automobiles?

Mr. **Warden**. You mean how much is out-sourced, how much is brought in by the domestic manufacturers?

Senator **Ford**. Yes.

Mr. **Warden**. Well, for the largest companies, GM, Ford, Chrysler—none of those companies is below 90 percent domestic content as defined in this bill. The bill requires 90 percent domestic content for cars sold in large volumes and those manufacturers all meet that requirement.

As the bill was modified, it now has kind of a sliding scale, and Volkswagen of America with its current sales levels and Honda of

America and AMC-Renault all would meet the requirements of the bill.

Senator **Ford**. In your opinion, how successful have the voluntary restraints been?

Mr. **Warden**. I think if the bottom had not fallen out of the market generally, that those restraints would have been of some assistance. As it turns out, the Japanese export share of the market has increased on a percentage basis, even though the numerical figure has gone down. So I think you would have to say that the industry has been ravaged by the economic problems that the country is suffering from generally, so the restraints have not had as large an impact as otherwise would have been the case.

Senator **Ford**. Who helps lower the interest rates on foreign cars for sale in this country? Does anyone know? I noticed the interest rates are 8.9 or 9.5. It is all on foreign-made automobiles. And about the lowest I see on domestic is 10.8. There is about a point difference in the interest rates?

Does anybody have any idea who subsidizes that interest rate?

Mr. **Warden**. Well, the Federal Reserve System basically is responsible.

Senator **Ford**. I guess I could loan money at any rate I wanted to.

Mr. **Warden**. Of course.

Senator **Ford**. Maybe it is for 1982 only but I think it is for 1983, and it is below 10 percent. I just wondered how they are able to do that when the rest of the auto manufacturers are straining to get down under 11 percent.

Mr. **Warden**. The domestic dealers are also offering an interest rate below the market rate right now, and that is in effect subsidized by the manufacturer or the dealer, depending upon who is picking up the difference. I think the answer to the question is, it depends on the retailer, in effect, and the manufacturer and to what extent they want to subsidize the interest rate, because those are below-market rates.

Mr. **Price**. If you are asking how they can do it, certainly with today's yen price the Japanese companies can sell at the current dollar price and make a profit, because they get a lot of yen back nowadays with such a lot of yen per dollar, and they can then turn around and subsidize the credit terms under which somebody buys the car.

I am not familiar with the specific situation you are talking about, nor about what kind of arrangements those companies have with their dealers.

Senator **Ford**. It was on TV and I happened to catch it.

How is the auto industry supported by the Japanese Government? How do you get the combination of government and industry in that country?

Mr. **Price**. Well, the whole growth of the industry in the fifties, sixties and early seventies was on the basis of government assistance, prohibitive tariffs, and they continue to have nontariff barriers. They have helped out Mazda by making sure that when the bottom fell out for the rotary engine in the midseventies—it did not get good fuel efficiency and higher prices of gasoline made that engine not popular—they made sure the financial community in Japan bailed out Mazda.

But they do not now have ownership of those companies or to our knowledge subsidies to those companies.

Mr. **Warden**. Senator Ford, if I might add to what Mr. Price has said, I think this adds up to nurturing their industry. What they did when that industry was just developing was to make sure that they protected it.

The question came up earlier today, to what extent we could penetrate that market. Well, I think at an early time the U.S. manufacturers could have penetrated that market rather significantly. Today total imports into Japan in the automotive area amount to 0.9 of 1 percent. That is the way that that market has been protected, and there are two generations, I guess, of drivers in Japan now who have come to expect to buy domestically produced automobiles.

I think penetrating that market is going to be difficult, but they have maintained support for that industry, and they continue to do so through a lot of other devices.

The **Chairman**. Dick, could you enumerate some of the specific nontariff barriers? I find some myth and some fact. I want the current ones, not what they did in 1977 or 1978.

Mr. **Warden**. I guess what I am trying to say is, we can enumerate the current ones, but not to assume what has happened over the last few years in that country, with that domestic Japanese automobile industry, I think, is to overlook the basis for what is happening today, but they still do a number of things to support that industry. Some of them were alluded to by others this morning, including different inspection procedures that are followed and—Why do you not respond to that, Lee?

Mr. **Price**. Senators Riegle and Levin did a fairly exhaustive survey, but they did not explain what the economic significance of those were. When you have different nontariff barriers that raise the price of a car, it has a big effect.

The **Chairman**. One of the ones they mentioned was required inspection of every car instead of spot inspections. Is that still in place on all imported cars today, American and otherwise?

Mr. **Price**. All American cars today have to be individually inspected.

The **Chairman**. What about other imports into Japan?

Mr. **Price**. To my knowledge, VW testified in September, and I assume it is still the case, that they have a very expensive procedure they follow to have their cars inspected in Japan—in Germany.

The **Chairman**. Please say that again.

Mr. **Price**. VW has a very expensive procedure they use to have their cars inspected in Germany rather than in Japan.

The **Chairman**. Is every car inspected?

Mr. **Price**. No, not every car is inspected.

The **Chairman**. Then the procedure would be no more expensive for them than the Japanese manufacturers.

Mr. **Price**. It is more expensive.

The **Chairman**. Why is that?

Mr. PRICE. I do not know the technicalities of it, but I have been assured by the people who have studied it that it is a different procedure, and when you have a different procedure in the auto industry, that is very important, because the auto industry requires mass volumes to compete.

The CHAIRMAN. What else?

Mr. PRICE. Japanese manufacturers requires that their dealers handle their cars only. U.S. manufacturers, on the other hand, are prevented from that practice by the Government. That means they can carry a sideline model at low volume, but have a dealership big enough they can reduce the costs per car, because the U.S. companies have to deal in such small volumes they can never get the volume to bring down the price.

The CHAIRMAN. That is good. These are the kind of examples I want. Are there any more besides those two?

Mr. PRICE. We have them in our testimony.

Mr. WARDEN. We would be happy to prepare a list and get that to you within a matter of hours, if that would be helpful.

The CHAIRMAN. That is fine, Dick. I do not want to put you on the spot. If there were no restrictions, I still sense the UAW would be supporting this legislation. I sense the real guts of your proposal does not rest upon Japan's lack of openness.

Mr. WARDEN. That is correct, Senator. I do not know whether it was before you came into the room, but I referred to the fact that all of the exports into Japan taken together, including the United States—by the way, our exports into Japan now number about 4,000 a year. All of the exports from other countries into Japan in the automotive area amount to about 0.9 of 1 percent.

That is why I think the conditioning factor is an important consideration when we begin to enumerate the existing nontariff barriers, but you are correct, Mr. Chairman, the UAW would be supporting this legislation because this legislation really tries to deal with a couple of different problems.

One is the devastation that has been experienced in the automobile industry itself and related industries as a result of the depression in the automobile industry. This is an investment bill. It is a bill that tries to encourage our competitors to come into this country where they have this huge market, invest capital, and create jobs, the way VW has done. And they have done it. And the way Honda is now doing.

Senator FORD. How large is Honda?

Mr. WARDEN. They have just opened a plant in Marysville, Ohio. They were previously manufacturing motorcycles at that site. And they now are beginning production, and will be in full production in a year.

Senator FORD. I saw the car roll off the assembly line.

Mr. WARDEN. It is the Accord line they are going to produce in this country, and they plan within a year to have 50 percent domestic content in the Accord model. The Accords that will be sold in this country will be manufactured in Ohio.

The CHAIRMAN. They have a light truck plant in Tennessee?

Mr. WARDEN. Yes, Nissan does, and I think their plans call for producing cars at that site.

The **Chairman**. I am curious, Dick. Are all of those plants organized by the UAW?

Mr. **Warden**. No.

The **Chairman**. Which one?

Mr. **Warden**. Volkswagen of America has plants that are organized by the UAW. Honda does not, and we have not organized the Nissan plant in Tennessee.

Mr. **Price**. I would like to comment on why Japanese prices are not a motivation. This industry is one that has very long lead times. When companies decide to have a car model, they are now talking about car model decisions that come out in 1986 and 1987, maybe as early as 1985. They have to decide where they are going to put their investment. They are designing a new car. Where are they going to have the engines made, the transmissions made?

What the U.S. government has been saying for the last 2 years, despite the overvalued dollar and depressed yen and soaring imports is, we do not really care about where the auto industry is. Let the chips fall where they may. If you cannot make a profit here, just go do it somewhere else. And no other country says that about their auto industry. Every other country says the auto industry is important, and we will have Government policies that keep it here. That is why Germany or France or Britain or Japan have done what they have done.

There are only a dozen major auto companies in the world, and they are deciding where they are going to employ millions of people 3 or 4 years from now. The U.S. Government is saying, we may have an agreement for a year. We may have an agreement for 2 years to keep out some cars coming in, but they are not saying that they want to have the engines produced, the transmissions produced. They want to have all of the steel and other things done here.

We are saying that the U.S. Government has to make a commitment to say that it cares about the auto industry.

The **Chairman**. Do you not have this situation, though? You cannot limit it to autos. The steel industry will make the same arguments. I am sure the air freight manufacturers would make it, if we started to see significant inroads in foreign competition. That is, no country of any consequence can afford to have its hard industrial base eroded, whether you talk about employment or for reasons of national security. You just cannot become a service economy and assure everybody around the world that you are going to be a significant country.

I find some validity in that argument, but is not the tradeoff that if Germany, France, Great Britain, Italy, Japan do it, that you inevitably are going to pay more for the products that you protect? It is protectionism. It is not a bad word, but if every country does it, excluding goods from the country who can produce the cheapest and the best, are you not bound to have more expensive base products?

Mr. **Price**. Not necessarily.

The **Chairman**. Why?

Mr. **Price**. Senator Riegle was explaining economies of scale are important. If you have an industry that is being abandoned, and a steel industry that is at 35 percent capacity, and other industries at low capacity, then those may have higher prices than the situation where you have maintained the level of production that you have been having, so you can have more efficient production if you insure that the domestic industry is viable and not being abandoned.

The CHAIRMAN. But your conclusion is that every protected industry in every country, not just the United States, as separate components can produce more efficiently than a worldwide industry. That has to be your conclusion.

Mr. PRICE. I do not think that this kind of formula and this kind of approach should be done in every industry in every country. I think you have to act realistically about this industry at this juncture, and look at how autos are being dealt with in other countries. In this instance, I agree with you entirely about the service industries. The fact of the matter is, most service industries are locally based. They are not nationally based. If Detroit goes down, the school teachers are not going to start teaching Canadians. All of the jobs that have been growing have been in local government. They have been in food, they have been in retail. Those kinds of jobs depend on the local economies. If we let our local economies go down, those people are not going to start selling abroad. They are not even going to be selling in another State. They will be unemployed, too.

Mr. WARDEN. I also think we have to look, Mr. Chairman, at the practices that have grown up around the world. Now, we did not ask for those practices, but they are out there. There are 31 countries in the world which have auto content legislation. Almost every country in the world has some kind of restriction, whether it is auto content legislation or something else—quotas, tariffs, or other nontariff barriers.

So, I believe that it is important that you look at what is happening in other countries. If we remain the only automobile market in the world that is open, I hesitate to use this word, but we do not want to be a dumping ground which is going to undercut everything that we are trying to do in this country and in our industrial base.

So, we did not ask for these practices, but they are there.

Senator FORD. I wrote dumping down here in the U.S.A. If other countries require domestic content or manufacture of that vehicle in their country in order to sell it, we find in the tobacco industry if you are going to sell cigarettes here, you have to produce them here. There is huge capital investment to get into that market. Maybe we will be able to sell some of ours.

If a country requires the automobile industry to make them here to sell them here. They have to have so many cars to make that plant economical. If they fail to sell that total number manufactured in that country, what happens to the surplus? Does that wind up on the east shore of the United States, because our doors are open, and they can come in and maybe sell a little cheaper, change the value of the yen, give a 1.5 percent less interest rate, do the things that undercut our domestic market?

Mr. WARDEN. I think the implication in your question provides the answer. I think the answer is yes. To the extent that the United States fails to take steps to deal with this problem, it is going to be a more serious situation. You talk about the undervaluation of the yen. Obviously, a terribly important problem. Our manufacturers in this country are at a competitive disadvantage in other areas, too, when you stop to take a look at what kind of situations the domestic manufacturers have to face in competition with the foreign manufacturers.

Those are not in the nature of nontariff barriers, but they are problems that should be dealt with.

The **CHAIRMAN.** Dick, as you know, we are going off to vote again. I think we are done. Thank you very much.

Mr. **WARDEN.** Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF DOUGLAS A. FRASER, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, UAW

Mr. Chairman, members of the Commerce Committee, I am Douglas A. Fraser, President of the International Union, UAW. I appreciate this opportunity to testify before your Subcommittee on behalf of the 1.3 million members of the UAW about the crisis in the U.S. auto industry, auto policies around the world, and our recommended response to the challenge they pose.

CRISIS CONDITIONS

The four year crisis in the U.S. auto industry has taken an awesome toll. Unless the U.S. government adopts an auto policy that deals with the realities of auto trade and investment, the deterioration of our auto industry will continue at an intolerable rate—even if auto sales revive.

At no time since the Great Depression have auto producing communities experienced such high and sustained unemployment. The hopelessness and the personal and social tragedies in those communities exceed all post war experience. Since 1978, depressed sales and rising imports have forced employment in the motor vehicle industry down 30 percent, from 1,005,000 to 700,000. Another 720,000 jobs have been lost in suppliers to the auto industry, for a total loss of over one million jobs.[1] The impact on minorities has been particularly acute since the auto industry employs minorities at double the national rate.

Sales in 1982 plunged even below depressed 1981 levels, leading to further cutbacks in production and employment. For all of 1982, sales will be at their lowest level since 1961. A scant 5.1 million cars will be produced in 1982, fewest since 1958 and 19 percent below the already dismal level of the year before and 45 percent below 1978, the industry's last healthy year. To understand the dimensions of the industry's decline, such comparisons have to be put into perspective. The nation has grown enormously since 1961: our population has risen by 26 percent; the number of licensed drivers by 75 percent; the number of cars on the road by 77 percent; and our real GNP has nearly doubled.

The crisis in the domestic industry has been severely aggravated by increased imports from Japan. While domestic production plummeted between 1978 and 1982, imports from Japan rose 33 percent for cars and—despite reclassification into a higher tariff rate category—21 percent for light trucks. Japan's share of the shrinking car market has swelled from 12.1 percent to 22.5 percent—accounting for more than the entire increase in import share (from 17.9 percent to 27.8 percent). The import share for trucks (all from Japan) bounded upward even faster, from 8.3 percent to 15.9 percent. (See Appendix I) And this jump in import penetration has occurred despite extensive rebates by the domestic companies, and Japan's announcement of voluntary import restraints.

All indicators point to further increases in imports in the coming decade if nothing is done. By 1990, the import share is predicted to be 40 percent by Merrill Lynch Economics,[2] 35.8 percent by Chase Econometrics,[3] and as much as 65 percent under one "scenario" considered by a National Academy of Engineering panel.[4] A General Motors spokesman recently predicted that the import share could reach 40 percent as soon as 1985—the year after GM begins receiving small imported cars from Isuzu, the Japanese affiliate it controls.

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[1] The Bureau of Labor Statistics estimates that there are 2.36 supplier jobs for every job at the vehicle companies.

[2] Congressional Budget Office, "The Fair Practices in Automotive Products Act (H.R. 5133): An Economic Assessment," August 1982, p. 14.

[3] Ibid.

The rise in imports has not been confined to finished vehicles. In the last decade, the value of auto parts imported into the U.S. from countries other than Canada has grown at an annual rate of 24 percent. The Department of Commerce estimated in December that 2.5 million engines and 1.7 million transmissions will be imported during each of the next several years. There is considerable evidence that without government action, this will only be the tip of the iceberg. According to a recent survey of automotive industry experts conducted by the accounting firm Arthur Anderson, the imported content of domestically assembled vehicles (now less than 5 percent) could jump to 30 percent by 1985 and to 39 percent by 1990. (Appendix III is a partial list of major foreign sourcing commitments announced by domestic vehicle companies.)

IMPORTANCE OF THE AUTO INDUSTRY

This nation cannot have a healthy economy without a healthy auto industry. Auto is pivotal, in terms of employment, technology, and links to other industries. Even in 1982, the industry employs 700,000 auto workers and 1,650,000 supplier workers, for a total of 2.35 million jobs. The industry consumes 21 percent of all the steel used in this country, 50 percent of the malleable iron, 34 percent of the zinc, 12 percent of the primary aluminum, 13 percent of the copper, 60 percent of the synthetic rubber, and 30 percent of the industrial robots.

No other technologically advanced American industry can match the auto industry in terms of size or impact on the rest of the economy. Our auto industry has a solid record of developing new manufacturing technologies and improving productivity. It is widely acknowledged that the Japanese industry has few technologies not already used here, and uses many technologies that were developed here.

The auto industry's leadership on productivity has spillover effects that improve the productivity in other industries. Numerous other industries have adopted production technologies developed by the auto industry. The auto companies have remained in the forefront in development of manufacturing applications for computers, robots and automated equipment. This nation would have difficulty remaining a major industrial economy without a robust and substantial auto industry.

HOW S. 2300/H.R. 5133 WOULD WORK

The provisions of S. 2300 and H.R. 5133 are designed to assure a healthy and competitive domestic auto industry. The bills also recognize the critical power of a handful of giant vehicle manufacturers to decide where production will take place to supply the U.S. market.

H.R. 5133 was significantly amended by the House Energy and Commerce Committee. All companies with annual sales here of over 100,000 vehicles would be required to locate some production here, hire workers here and buy auto parts here. After a one year grace period, the requirements would be phased in over the next three years. The content requirement would be based on a vehicle manufacturer's trade balance in automotive products. For example, a 90 percent content requirement would permit a company to have net automotive imports (imports minus exports) worth up to 10 percent of its wholesale auto sales here. A company's content requirement would be based on a smooth scale that starts at 100,001 vehicles, then rises until 900,000, where it levels off. From model year 1986 onward, the content percentage (up to a maximum of 90 percent) would be derived by dividing sales by 10,000. Thus, sales of 355,000 entail a 35.5 percent content requirement. A "safety net" provision prevents a company from reducing its content ratio by more than 10 percent below the 1983 model year. Thus, AMC/Renault which is currently around 80 percent could not fall below 70 percent.

EFFECTS ON EMPLOYMENT AND PRICES

H.R. 5133/S. 2300 would create or preserve many jobs, would not trigger substantial car price increases, and would permit corporations to achieve economies of scale internationally.

By the end of the decade, enactment of H.R. 5133/S. 2300 would create or preserve over one million U.S. jobs, including 200,000 auto jobs, and 500,000 supplier jobs that we would not otherwise have, based on reasonable assumptions about trends in imported vehicles and parts.

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[4] "The Competitive Status of the U.S. Auto Industry," July 26, 1982.

U.S. automotive production currently amounts to about three-quarters of the value of new cars and trucks sold here. Imported vehicles and parts in excess of U.S. automotive exports account for the remaining quarter of our market. By requiring U.S. production and purchases by all companies with large sales here, this bill would stabilize the future ratio of U.S. production to sales at roughly three-quarters. By the end of the decade, in the absence of the local content law, U.S. automotive production as a share of the market can be expected to fall to about one-half of U.S. auto sales. A fall in U.S. production from three-quarters to one-half of the auto market would eliminate the jobs of more than 200,000 auto workers—and 5.5 times that many outside the auto industry.[8]

To stabilize U.S. auto production relative to the market, the bill addresses imports of both vehicles and parts. Instead of rising to their predicted 40 percent share of the market, many vehicles which would otherwise have been imported will instead be built here or at least assembled here with imported parts. The overall domestic value-added of foreign cmpanies would rise to roughly 50 percent of the value of their sales here, instead of remaining at about 15 percent. In addition, net foreign sourcing by the largest U.S. companies would be capped at 10 percent of their sales here, and prevented from rising to an otherwise probable 20 percent by 1990.

H.R. 5133/S. 2300 would have a very limited effect, if any at all, on competition and consumer choice in the U.S. auto market. Just as dire predictions of the price effect of the Japanese export restraints negotiated in May 1980 have been given the lie by the 5.3 percent annual auto price inflation over the past year and a half, so too are forecasts of S. 2300's price impacts grossly overstated. For example, in its analysis, the CBO predicted that prices would rise 3.8 percent; the Congressional Research Service predicted 4.3 percent. However, both assumed that the bill would function as a quota, substantially curtailing foreign companies' competition with U.S. companies. In fact, the CBO predicted that foreign companies would have 3.75 million units in U.S. sales by 1990 in the absence of content, but only 2.6 million with content. Under the bill as amended, however, foreign companies would surely respond by investing in an attempt to maintain or increase their current shares of the market. Thus, any forecast of higher prices based on greatly reduced vehicle availability is, we believe, invalid.

A domestic content law would also retain competition among the world's auto companies to provide the American consumer with a wide variety of innovative products built with the most efficient technologies available. The U.S. producers would continue to be pressured by the discipline of the design and engineering innovations of foreign-based manufactures. Hence, a bill such as S. 2300 is clearly superior to measures solely limiting car imports.

H.R. 5133/S. 2300 leaves a company ample flexibility either to integrate its U.S. operations into a global production network or to produce simply for the local market. It must generate production here, but can choose which parts or assembly it wants to have done here and which it wants to have done elsewhere to supply this market.

In sum, this is a very effective jobs bill, not only for the auto industry but for the economy as a whole. The additional million jobs—many of them in communities already hard-pressed with high unemployment—would be obtained at little cost in terms of inflation, consumer choice, and efficient management. The cost of inaction is far greater: A metalworking industrial base at risk; an estimated $25 billion annual loss to the Treasury due to taxes not paid and costs of transfer payments; and a massive regional fiscal crisis.

SUPPORT FOR "SELL HERE, BUILD HERE"

There is widespread support for the proposition that companies enjoying large volume sales here should be investing here. Polls have shown the American people support it two to one. Business Week and Automotive News have supported the concept of local content legislation for the U.S. auto industry. (See Appendices VI and VII) Ichiro Shioji, president of the Japanese Auto Workers, has advocated for several years that Japanese auto companies make significant investments in countries where they have large markets, notably the U.S.

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[8] According to the economic model developed by the CBO, for every additional job in the auto industry by 1990 there will be a positive ripple effect adding 5.5 more jobs in the rest of the economy-assuming no retaliation, which we consider appropriate for reasons discussed later and in Appendix VIII. The CBO, however, ignores the effect of the bill in curbing the rise of the import share and of foreign sourcing. (See appendix VIII)

Two large foreign companies have already made substantial commitments here relative to their sales. VW began U.S. production in 1978. Now, in addition to its assembly plant in Pennsylvania, it has a stamping plant in West Virginia and a parts plant in Texas. VW has reported that its domestic content for the Rabbits built here is 70 percent. Renault has made a sustantial commitment, providing capital and working with AMC to retool its Kenosha plant to build the Alliance.

These VW and Renault actions are merely the latest chapter in the thoroughly multinational, eight decade history of the auto industry around the world. GM, Ford, Chrysler, VW, Renault, and Fiat have for decades built in regions where they enjoy significant sales.

In contrast, Japanese auto companies had exports of $13 billion to the U.S. last year. With the $13 billion allocated according to their relative sales here, Toyota and Nissan Fuji (maker of Datsuns and Subarus) accounted for $4 billion each and Honda for $2 billion.

Toyota has made no public commitments for significant U.S. production, although the Toyota Group (including Hino) does assemble vehicles in other countries, including Australia, Brazil, Canada, and Ireland.[6] Under clear political pressure to undertake some production here, Toyota has been negotiating with GM to assemble vehicles jointly in the U.S. in 1984 or 1985. We believe the extent to which that arrangement actually increases U.S. production will depend on whether Toyota knows that to be the goal of the U.S. government.[7]

Nissan and Fuji Heavy Industries (which as members of the same Japanese combine should be considered commonly controlled vehicle manufacturers) have very modest plans to begin truck assembly in Tennessee this year. Relative to the size of its sales in the respective markets, Nissan/Fuji has invested far more heavily in recent years in Australia, Mexico, Italy, and Spain[8] and has been negotiating for a $500 million assembly plant in the U.K.

Relative to its sales here, Honda is making a better commitment to output and employment here. This year, it has started building cars in Ohio and expects soon to achieve 50 percent local content for 150,000 cars a year. Both the content percentage and number of cars assembled at that plant can—and should—be increased substantially.

AUTO POLICIES IN OTHER COUNTRIES

Because foreign governments have taken decisive actions to promote and protect their respective auto industries, world trade in automotive products today bears no resemblance to the textbook world of "free trade." In fact, the measures involved in S. 2300 are quite modest in comparison to those imposed by the governments of all other major auto-producing nations, including Japan, the members of the European Community, Australia, and the more advanced developing countries.

With prohibitive tariffs, Japan kept out auto imports until the early 1970s. Since then, while phasing out their tariffs, they have relied on non-tariff barriers. They have stiff product standards that differ substantially from those of other countries. In addition, they extensively inspect each imported car, rather than inspecting a sample of cars and then accepting the manufacturer's self-certification (which is the practice in the U.S.) There are no domestic/import dealers as there are here, so import dealers in Japan have very low volume. As a result of these and other non-tariff barriers, no foreign auto maker has been able to break out of the vicious cycle of low volumes and high overhead. The consumer pays twice as much for a U.S. car in Japan as for the same car here. At the same time, the stiff Japanese commodity tax—rebated on exports—holds down the U.S. price of Japanese cars, while domestic cars bear a full U.S. load. The effectiveness of its barriers is shown by the 0.9 percent share held by imported vehicles in the Japanese market in the first half of 1982.[9]

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[6] Japan Motor Industry Federation, "Guide to the Motor Industry of Japan 1982."

[7] Under similar political heat in 1980, Toyota publicized comparable meetings about a joint venture with Ford and three investigations about the viability of independent investment here. When the heat died down, so did the talks with Ford and the results of the three studies were not made public. Presumably, if these studies had reached conclusions that satisifed Toyota, they would have been publicized; we suspect that Toyota may have suppressed findings that U.S. investment would be viable.

[8] Ibid.

[9] Japan Automotive News, August 1982.

Thriving and expanding beyond the potential of its own protected home market, the Japanese industry has now become the world's largest exporter. All other major auto-producing nations have reacted to this by restricting imports from Japan. In every case this was done well before their domestic industry suffered injury to the extent that the U.S. industry has. France froze the Japanese share at 3 percent in 1978, and last year cut that back to 2½ percent. Italy with car sales of about 900,000 does not permit more than 2,200 autos a year to enter from Japan.[10] Germany has forced Japan to accept no more than about a 10 percent share of its market. The U.K. has not only curbed Japanese imports but forced Japanese cars to be produced there. A "gentleman's agreement" between the industries of the U.K. and Japan has limited Japenese exports to no more than 10–11 percent of the British market. When Japanese trucks began surging into the U.K. last year, an agreement was reached to stop all shipments for five months. Under those conditions, the British government-owned (formerly British Leyland) arranged to assemble Hondas.[11]

In contrast to these prompt and forceful actions, the U.S. took no action as the Japanese share of our car market skyrocketed from 12.1 percent in 1978 to 21.2 percent in 1980; even the restraints achieved last year did not prevent the import share from rising still further to 21.8 percent in 1981 and 22.5 percent so far in 1982.

Japan is not alone in promotiing automotive exports while virtually prohibiting imports. Just this spring, the Brazilian government announced that it had negotiated with foreign auto and machine tool companies for export commitments worth $16.7 billion over the next three to seven years. Mexico, South Korea, and Taiwan are also launching multi-billion dollar programs to boost production far in excess of the requirements of their limited and highly protected internal markets.

Internal U.S. auto company documents[12] give direct evidence that foreign subsidies and export requirements have cost many of our members their jobs. Often, based on strictly economic considerations, the company would have invested or sourced in the U.S. except for the subsidy or export requirement.

Continued passivity in trade and industrial policy will inevitably lead to further erosion of U.S. auto production. We provide the most open and inviting auto market in a world which is actively promoting export and/or shutting off rising imports.

GATT, RETALIATION AND U.S. EXPORTS

Some critics of S. 2300 argue that retaliation against U.S. exports would nullify the gains to the auto industry. The assumption that massive retaliation from Japan is likely cannot be supported by a careful analysis of auto policies around the world, the political context of the GATT, and Japan's trade patterns.

Japan has never brought a GATT complaint, much less retaliated, against the dozens of countries which restrict Japanese auto exports much more stringently than S. 2300. Indeed, to achieve or maintain their market presence, Japanese auto companies have invested in many of those countries. Once the Japanese companies have begun to comply in earnest, they will discourage the Japanese government from pursuing a GATT complaint.

The GATT procedures require that Japan first meet with the U.S. to try to iron out difficulties before a formal complaint is filed. If Japan were to file a formal complaint, the U.S. could file countercharges against the auto policies of Japan and many other GATT members in Europe, Australia, Latin America, and Indonesia.

An analogous situation occurred after the U.S. enacted Domestic International Sales Corporation (DISC) legislation giving special tax breaks to exporters in 1971. At that time, several European countries lodged complaints with the GATT.

The U.S. countercharged against policies of those countries and argued that, if the DISC did violate the GATT, those countries were also violating the GATT with comparable measures. In effect, the U.S. defended the DISC as necessary for U.S. exporters to compete fairly on the world market because other countries were subsidizing their exports. Several years later, a GATT panel ruled that both the DISC and the foreign rules did violate the GATT. Since that time, the other countries have not changed their practices, nor has the U.S. modified the DISC to conform to the GATT.

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[10] That, no doubt, was helpful leverage in getting Nissan to enter a joint venture with Alfa Romeo to produce cars in Italy.

[11] Both Italy and France have decided that those Hondas will be counted in their quotas on Japanese cars because they lack sufficient European content. The U.K.'s ability to complain about these de facto local content requirments is limited because it has been negotiating with Nissan to build cars there under the condition that they have 80 percent local content.

[12] Brought to light in Mar. 7, 1980 hearings before the Senate Labor and Human Resources Committee.

Likewise, the Fair Practices in Automotive Products Act is a modest defensive measure; the quotas, content rules, and export requirements of other countries are generally far more severe than this legislation.

As a practical matter, Japan has a very limited capacity to take action against the U.S. even it if were to go to the GATT and prevail. If Japan could win a GATT ruling against U.S. auto content legislation, the U.S. could win rulings against the auto policies of most other auto-producing countries. Even if that point should be reached, it would not be in Japan's interest to take action against U.S. exports.

Japan buys from the U.S. only what it cannot make for itself: raw materials and products using technology it does not yet have. For many of these products, the U.S. is Japan's predominant supplier; and for those imports for which Japan does have alternative sources, those source countries have auto policies far more restrictive to Japanese auto imports than the proposed U.S. legislation: Australia, Argentina, Brazil, Indonesia for foodstuffs and raw materials; European countries for manufactured goods. Japan could retaliate against modest U.S. auto content legislation only by buying less from us and more from countries with auto policies which limit their exports even more severely than would S. 2300.

RECURRING PROBLEMS WITH JAPAN

The U.S. will have recurring trade crises with Japan for as long as we continue to take a passive approach to trade and industrial policy and Japan takes an activist approach. Fault does not lie with the U.S. or Japan alone, but with the failure of the two governments to develop a satisfactory modus vivendi. The impact of our two nations' contrasting approaches to trade and industrial policy has been overwhelming for certain U.S. industries. Mr. George Ball pointed this out several years ago:

"One of the problems of Japanese trade expansion is that it's been incisively targeted. You (Japan) practically destroy certain industries in the United States—transistor radios, then television, and the like. There is a feeling in the United States that the way your trade is targeted corresponds to a whole different set of values. It responds to governmental decisions in Japan, not simply decisions of industry.

"This is what is meant by a structural difference between our two systems. MITI decides to make a great effort with computers, so it reorganizes the Japanese computer industry in order to export. Some other industry may be targeted tomorrow. This is what gives apprehension to American industry: maybe they will be singled out next—not merely by the efforts of one Japanese company, but by a combined, national, centrally orchestrated and direct effort, with assistance from the state in the form of reorganization of the industry, assistance with research, and public financial help." [13]

The U.S. auto industry has certainly been successfully targeted for such export effort, and today the auto situation represents by far the largest single problem in the U.S.-Japan trading relationship. Last year, when the U.S. had an overall trade deficit with Japan of $16 billion, the deficit in auto trade amounted to $13 billion.

Over the last several years of friction over auto trade, Japan has made noise about redressing imbalances, but done little. An editor of the Japan Economic Journal has aptly described the Japanese strategy in trade negotiations with the U.S.: "Making easy promises and postponing real action almost indefinitely." [14] The U.S., on the other hand, tends to ignore trade problems until domestic distress gets unbearable.

As our auto deficits with Japan have mushroomed ($47 billion over the last five years), the Japanese have sponsored dozens of meaningless study teams and issued countless press releases, each promising a more balanced relationship in automotive trade and investment. In 1980, the Japanese vehicle companies conducted a much ballyhooed "parts buying mission" to reduce tensions caused by our then $1.3 billion auto parts deficit with Japan. At its conclusion, the spokesperson for the mission assured the American public that the Japanese auto companies would probably buy $300 million worth of U.S. auto parts in 1981. U.S. Commerce Department data indicate that our 1981 exports of auto parts to Japan amounted to $119 million, little more than the $105 million for 1980 once inflation is taken into account. Between 1980 and 1981, however, our parts imports from Japan soared 30 percent to $1,790 million, causing the parts deficit to widen by another $401 million.

Meanwhile—using content as a tool—Japan has moved to establish itself as an exporter of aerospace equipment. The Japanese Ministry of International Trade and

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[13] "Japan, The United States and The World," a conversation with George Ball, et al., Japan Information Center, New York 1979.

[14] Japan Economic Journal, Aug. 24, 1982, page 20.

Industry (MITI) has been actively promoting local production and technology transfer for the Japanese aerospace industry. To that end, it has required local production as a condition of its purchases of aerospace equipment from the U.S. The activities of three Japanese companies (Fuji, Kawasaki, and Mitsubishi) have been coordinated to develop the industry's international competitiveness in coming years.

When the Japanese government made multi-billion dollar purchases of military aircraft from McDonnell Douglas and Lockheed, it required an average of 40 percent or more of their total value to be produced in Japan. Japanese content would start low and, over the several years of deliveries, rise until virtually all of the final aircraft would be made in Japan.

The situation is more complex but equally telling in the case of the arrangements made for the three Japanese companies to build 15 percent of the value of all the new-generation Boeing 767's to be sold worldwide. At the time (fall 1978), the competitiveness of Japanese exports was at an historic low because the yen was being traded at 180 to the dollar. The Japanese govenment has leverage over Boeing since Japan Air Lines is government-owned and is a large potential customer for Boeing planes. The Japanese government formed the aerospace arms of the three companies into the Civil Transport Development Corporation (CTDC), negotiated with Boeing on the CTDC's participation in the 767 project, and provided the CTDC with a $100 million subsidy. Although neither Boeing nor the Japanese government has stated publicly that local production is a quid pro quo for Boeing sales to Japan, it is widely acknowledged in the industry that local production has become a widespread condition of foreign sales.

JAPANESE INVESTMENT HERE AND "RECIPROCITY"

In the last year, several versions of "reciprocity" legislation have been proposed to press the U.S. government to take a tougher stand in negotiations over the trade policies of foreign governments, especially Japan's. The various "reciprocity" bills call on our trade negotiators (1) to investigate unfair trade practices of foreign governments; (2) to demand that those practices be changed; and (3) to back up our demands with the threat of closing the U.S. market to some exports by the offending country if it does not stop those practices.

Although we support meaningful Congressional efforts to strengthen the hand of the U.S. Trade Representative in international negotiations on the full range of economic dealings, "reciprocity" legisltion would not be an effective substitute for S. 2300.

The type of reciprocity legislation acceptable to the Administration would merely clarify that it has authority under Section 301 to investigate, negotiate, and retaliate over unfair practices in services (e.g., banking, accounting, engineering), and not just goods. The Administration would also have to make an annual report to Congress on the foreign practices that it considered unfair. Experts on this legislation generally agree that it does nothing to change the current authority of the President to handle trade problems for U.S. products. In other words, this reciprocity legislation affects neither the auto industry's problems nor those of any other industry except for services.

Even if reciprocity legislation had teeth, such legislation would not be the answer to our international trade and investment problems. To require the U.S. government to retaliate whenever it cannot get foreign governments to stop their "unfair" practices would present a recurring dilemma: either we raise a lot of U.S. barriers or, to avoid that, the President feels compelled to declare that the foreign government has really done nothing wrong.

Finally, Section 301 of current U.S. trade law already gives the President authority to investigate, negotiate over, and retaliate against unfair foreign trade practices affecting U.S. products. Because that authority has almost never been used, some want to require the Administration to take action, or otherwise make non-action more difficult. However, to be realistic, we must recognize that foreign governments will rarely change practices that Americans might consider "unfair" to our exports or imports, regardless of the threats coming from the U.S. Other countries do not consider it "unfair" for their governments to play an active role in their economies to raise output and jobs.

On the other hand, S. 2300 would move the U.S. toward real reciprocity in its overall economic relationship with Japan, in terms of trade, capital and technology. Our current lack of reciprocity with Japan does not stop with problems of getting access to the Japanese market. Japan has benefited immensely from American technology and virtually unlimited access to U.S. market. Today Japan is brimming with technology and capital of its own, but it has shared very little of them with us.

Japan will make effective progress toward reciprocity with the U.S. when S. 2300 is implemented. That would further integrate our two economies while providing badly needed jobs in the production of autos and parts, giving the industry an infusion of investment, transferring Japanese-developed technology, and alleviating the massive auto trade deficit.

In addition to obtaining new investment here by Japanese auto companies, S. 2300 would restrict rapidly increasing foreign sourcing by U.S. companies, i.e. their importing of cars and parts. Reciprocity legislation for negotiating with foreign governments does nothing about this.

In summary, S. 2300 deals with the twin trade problems of the auto industry—rising imports of vehicles and foreign sourcing by U.S. companies—while reciprocity legislation does not address either problem.

THE AUTO INDUSTRY CAN BOUNCE BACK

We face a real threat of continued displacement of our auto industry by foreign production. But we disagree with some economists who would have us believe that any industry with import problems should be abandoned. With appropriate backing by government, the industry can bounce back and—as it has historically—contribute significantly to the strength of the rest of the economy.

The UAW knows that major responsibility falls on the industry itself, and on labor, to take resolute action; we do not shrink from our role and responsibility in that regard. We have undertaken the difficult step of renegotiating our agreements with the major auto companies prior to the normal expiration of these agreements. We have never stood in the way of new technology, as evidenced by auto's substantial 3.2 percent average annual increase in productivity over the last 25 years—well in excess of the all-manufacturing average. In spite of flagging production, the industry's productivity staged a comeback in 1981, when it chalked up a remarkable 4.7 percent increase. Indeed the U.S. industry is by no means as seriously uncompetitive as certain analysts contend: a study just released by the Japan Productivity Center shows Japan pulling a mere one percent ahead of the U.S. in 1980 in auto industry productivity—when our industry was operating at seriously depressed rates and the Japanese operated at optimum capacity.[15]

Product quality is justifiably of utmost concern to consumers. American-made vehicles have been and continue to be the leaders in those aspects of quality leading to greater durability and safety. Indeed, not only are U.S. made cars safer than Japanese imports, but according to NGTSA crash test data U.S. small cars are safer than Japanese small cars. Recently, the idustry had made great strides in improving what is known as the "fits and finishes" aspect of quality, and we sense a serious commitment by corporate management to continue progress in this area.

Where direct comparisons can be made—these cases in which a foreign-based producer has established manufacturing facilities in the U.S. which make products similar to those produced in the home country—American workers have contributed to superior quality. According to Volkswagen of America, cars built in Pennsylvania are of higher quality than those built in Germany. According to Honda, 90 percent of their Japanese motorcycle output goes to the dealer directly from the production line; the corresponding portion of their Belgian output is 85 percent and for the U.S. it is 95 percent.

Finally, any cost advantage enjoyed by the Japanese—even the alleged $1,500 landed cost differential so often cited—would melt to $500 with the yen more appropriately valued.[16] Relative to the dollar, the yen is depressed as a result of both the tight monetary policy of our Federal Reserve and the insulated Japanese capital market imposed by their government. A reversal of the Federal Reserve's policy would not only greatly increase car sales overall by reviving the economy, but would give an extra boost to sales of domestic vehicles.

NEED FOR GOVERNMENT ACTION

Industry and labor cannot solve the U.S. auto crisis alone. The government also has a critical role. It must revive the economy and implement S. 2300. Economic recovery would increase car sales, restore the companies' balance sheets, and reemploy thousands of autoworkers.

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[15] New York Times, July 19, 1982.

[16] Many observers, including U.S. Trade Ambassador Brock and respected economists in both the U.S. and Japan, contend that the yen should have a value 15 to 20 percent above its current level relative to the dollar. Moreover, even apart from this, a recent paper by Professors Gemez-Ibanez and Harrison of the Harvard Business School raised serious doubts that the cost gap is as large as $1,500. They concluded that the true figure could easily be half that amount.

Unless S. 2300 (or something close to it) is passed, the outlook is bleak for autoworkers, auto industry suppliers and their communities. Even if the most optimistic sales projections prove to be accurate, unemployment related to auto will remain high due to other factors. For the sake of higher fuel efficiency, cars will continue to get smaller and require less work to build. The imperative to improve competitiveness will insure that auto's traditionally high rates of productivity growth will continue. Our nation puts great priority on fuel conservation and raising productivity, but we must recognize the effects they have on the depressed employment in the auto industry. We can ill afford to have even faster loss of jobs due to rapid inceases in imports. Unless content legislation is enacted, many of the steps the U.S.-based auto multi-nationals are taking to improve their competitive position will cause further widespread unemployment and continued erosion of the nation's industrial base.

Nor will the current policies of the Administration meet those goals. Quite the contrary, those policies have plunged us into a new recession with record jobless rates. Even if the economy stabilizes, there is no guarantee that new investment will finance domestic auto revitalization in the absence of content legislation.

CONCLUSION

Some critics have unfairly portrayed this bill as "the first shot in a trade war," or as "another Smoot-Hawley", referring to the 1930 measure that raised tariffs on many types of imports. When the U.S. raised tariffs immediately and virtually across the board in 1930, it served no sound economic purpose. In contrast, S. 2300 applies to a single industry and phases in the requirements over a reasonable period. Perhaps most importantly, it does not isolate the American economy from involvement with other economics, but integrates foreign companies into the U.S. economy.

Although Smoot-Hawley is not particularly pertinent to the current debate over trade problems, the experience of the 1930s nonetheless does have important parallels and lessons. The late 1920s and early 1930s witnessed exceedingly high real interest rates, competitive exchange rate devaluations, and worldwide economic decline. These caused trade to tumble then and are doing it now. European delegates to the GATT Ministerial in Geneva last month correctly argued that these developments must be addressed in any discussion of trade problems.

Because our auto policy is out of step with the rest of the world, we would not "start a trade war" by conforming to their pattern. If we do not take action, our auto industry threatens to continue its disastrous tailspin for much of the remainder of the decade. Other major auto-producing nations are actively promoting exports, preventing increases in imports, and financially assisting their home-based producers. To continue our passive trade and industrial non-policy in such a global environment means that, even when auto sales recover, U.S. production will fall far behind the pace.

S. 2300 would prevent further catastrophic erosion of auto production and employment in the world's largest auto market. It would curb the alarming rise in foreign sourcing by U.S. companies, while inducing foreign-based companies to invest here. Because of the magnitude of the industry and the ripple effect on suppliers and spending, the bill would create or preserve over a million additional jobs in the U.S. economy by 1990.

Mr. Chairman, we thank you for this opportunity to testify in support of the Fair Practices in Automotive Products Act. We urge members of this Committee to support S. 2300.

APPENDIX I

THE STATUS OF THE U.S. AUTO INDUSTRY

December 1982 is the 46th month of the U.S. auto slump. 1982 domestic sales will finish 1 percent behind 1981, and 39 percent behind 1978, the last healthy year.

During the same 1978–82 period, European new car sales in the U.S. have also declined, and by only a slightly smaller amount—35 percent.

But U.S. sales of new Japanese-made cars and small trucks are running 31 percent ahead of 1978, despite voluntary export restraints on cars and the August 1980 reclassification of light trucks-minu.

NEW VEHICLE SALES IN THE UNITED STATES

	Estimated 1982		1981		1978		Change in Sales	
	Sales	Share (percent)	Sales	Share (percent)	Sales	Share (percent)	81/80	81/78
Cars:								
GM	3,555,000	44.3	3,796,696	44.5	5,341,700	47.9	−6.4	−33.4
Ford	1,347,000	16.8	1,380,600	16.2	2,536,738	22.7	−2.4	−46.9
Chrysler	688,000	8.6	729,873	8.6	1,087,987	9.7	−5.8	−36.8
AMC	108,000	1.3	136,682	1.6	170,739	1.5	−21.0	−36.7
VWA	93,000	1.2	162,005	1.9	22,651	0.3	−42.6	....
Domestic	5,791,000	72.2	6,206,296	72.7	9,159,815	82.1	−6.7	−36.7
Toyota	530,000	6.6	576,491	6.8	441,800	4.0	−8.1	+20.0
Datsun	470,000	5.9	464,805	5.4	338,096	3.0	+1.1	+39.0
Honda	369,000	4.6	370,705	4.3	274,876	2.5	−0.5	+34.3
Mazda	164,000	2.0	166,105	2.0	75,326	0.7	−1.3	+117.6
Subaru	152,000	1.9	152,062	1.8	103,274	0.9	−0.0	+47.1
Mitsubishi	107,000	1.3	110,940	1.3	103,292	0.9	−3.6	+3.6
Isuzu	16,000	0.2	17,513	0.2	19,222	0.2	−8.6	−16.8
Japanese	1,808,000	22.5	1,858,622	21.8	1,355,886	12.1	−2.7	+33.3
European	420,000	5.3	468,484	5.3	644,029	5.8	−10.7	−34.8
Imported	2,228,000	27.8	2,327,106	27.3	1,999,915	17.9	−4.3	+11.4
Total cars	8,019,000	100.0	8,533,402	100.0	11,159,730	100.0	−6.0	−28.1
Trucks:								
Domestic	2,159,000	84.1	1,809,855	80.2	3,872,367	91.7	+19.3	−44.2
Japanese	407,000	15.9	447,568	19.8	337,169	8.3	−9.1	+23.7
Total trucks	2,566,000	100.0	2,257,423	100.0	4,209,536	100.0	+13.7	−39.0
Vehicles:								
Domestic	7,950,000	75.1	8,016,151	74.3	13,032,182	84.8	−0.8	−39.0
Imported	2,635,000	24.9	2,774,674	25.7	2,337,084	15.2	−5.0	+12.7
Japanese	2,215,000	20.9	2,306,190	21.4	1,693,055	11.0	−4.0	+30.8
Total	10,585,000	....	10,790,825	....	15,369,266	....	−1.9	−31.1

Note.—As a result of these anemic sales and output levels, layoffs remain high. Not counting those not working because of temporary plant shutdowns, a record 262,500 U.S. hourly auto workers are on indefinite layoff in mid-December 1982. The number on the active rolls stands at approximately 480,000, down 37 percent from 760,000 in 1978.

APPENDIX II

Major (Over 500 Jobs) Big 3 Automotive Plant Closings Announced 1980–82

	Jobs[1]
Chrysler:	
Hamtramck, Mich	5,600
Lynch Road, Detroit	5,000
Missouri Truck, St. Louis, Mo	4,100
Warren, Mich., recreational vehicles	2,000
Mack Avenue Stamping, Detroit	4,100
Eight Mile-Outer Drive Stamping, Detroit	2,400
Windsor Engine, Ontario	2,400
Detroit Universal, Detroit	1,100
Lyons Trim, Michigan	700
Scio Electronics, Michigan	600
Cape Canaveral Electronics, Florida	500
Huber Avenue, Detroit	2,400
Fosteria Iron, Ohio	650
Eldon Axle, Detroit	950
Vernor Tool and Die, Detroit	680
Ford:	
Mahwah, N.J	4,800
Los Angeles, Calif	2,300
Flat Rock, Mich	5,000

Windsor, Ontario	1,600
Aluminum Casting, Sheffield, Ala	1,100
San Jose, Calif	2,400
GM:	
Fort Street Trim, Detroit	2,980
Coit Road Stamping, Cleveland	2,770
Harward parts plant, Trenton, N.J	3,615
Automotive trim, Euclid, Ohio	1,115
Fremont, Calif	2,500
Southgate, Calif	2,550
Framingham, Mass	2,500
Lakewood, Ga	4,600
Conner Avenue Stamping, Detroit	1,150
Fisher Body Nos. 21, 40, and 41, Detroit	1,200

[1] At time closing announced. Past employment was often much higher, e.g., Hamtramck—28,000 and Eldon Axle—2,400.

Note.—In addition, several hundred auto supplier plants have been closed over the last several years and 2,927 dealerships have closed their doors.

APPENDIX III

FOREIGN SOURCING

[Partial list of known 1977–81 commitments by major U.S. automobile manufacturers to purchase foreign-made major components for use in domestic nameplate vehicles]

Manufacturer/Component	Intended for—	Source	Approximate number of components	Delivery beginning
GM:				
2.8 liter 6 cyl	Cars	GM de Mexico	400,000/year	1982
2.0 liter 4 cyl with transmission.	Mini trucks	Isuzu (Japan)	100,000/year	1981
1.8 liter diesel 4 cyl	Chevette	Isuzu	Small numbers	1981
1.3 diesel 4 cyl	S-Cars	Isuzu	NA	1983
1.8 liter 4 cyl	J-Cars	GM de Brazil	250,000/year	1979
THM 180 automatic transmission.	Chevette	GM Strasburg (France)	250,000/year	1979
Manual transmissions	J-Cars	Isuzu	250,000	1981
Ford:				
2.2 liter 4 cyl	Cars	Ford-Mexico	400,000/year	1983
Diesel	Cars	Toyo Kogyo (Japan)	150,000/year	1983
2.0 liter 4 cyl	Mini trucks	Toyo Kogyo	100,000/year	1982
2.3 liter 4 cyl	Cars	Ford de Brazil	50,000/year	1979
Diesel 6 cyl	Cars	BMW/Steyr (West Ger., Austria).	190,000/year	1983
Diesel 4 cyl	Cars		NA	1985
Manual transaxles	Front Drive Cars	Toyo Kogyo	100,000/year	1980
Aluminum cylinder heads	1.6 liter 4 cyl	Europe, Mexico	NA	1980
Accessory motors	Cars, trucks	Ford-Singapore	NA	1984
Electronic engine control devices.	Cars	Tashiba	100,000 + /year	1978
Ball Joints	Cars	Musashi Seimibu	1,000,000/year	1980
Transmissions	Ranger truck	Ford-France	NA	([1])
Trim	Ranger truck	Mexico	NA	NA
Trim	Econo van	Mexico	NA	NA
Trim	Topaz (Fairmont, Zephyr).	Mexico	([2])	([2])
Windshield glass	Light trucks	Mexico	NA	NA
Chrysler:				
6 and 8 cyl engines	Cars	Chrysler de Mexico	100,000/year	1982
2.2 liter 4 cyl	K-body	Chrysler de Mexico	270,000/year	1981
2.6 liter 4 cyl	K-body	Mitsubishi (Japan)	1 million	1981
1.7 liter 4 cyl	Omni/Horizon	Volkswagen (W. Ger.)	1.2 million	1978
Manual transmissions	Omni/Horizon	Volkswagen	500,000	1978
1.6 liter 4 cyl	L-body	Talbot (Peugeot)	400,000 total	1982
2.0 liter diesel and 6 cyl	K-body	Peugeot (France)	100,000/year	1982

FOREIGN SOURCING—Continued

[Partial list of known 1977–81 commitments by major U.S. automobile manufacturers to purchase foreign-made major components for use in domestic nameplate vehicles]

Manufacturer/Component	Intended for—	Source	Approximate number of components	Delivery beginning
1.4 liter 4 cyl	A-body (Omni replacement).	Mitsubishi	300,000/year	1984
4 cyl engines	Cars	Peugeot	NA	1985
Aluminum cyclinder heads	2.2 liter 4 cyl	Fiat (Italy)	NA	1984
AMC:				
Car components and power train.	AMC-Renault	Renault in France and Mexico.	300,000/year	1982
VWA:				
Radiators, stampings	Rabbit	VW de Mexico	250,000/year	1979
4 cyl diesel and gas engines	Cars	VW de Mexico	300,000+/year	1982

[1] Imminent.

[2] Prospective.

NA Figure not available.

Sources: Automotive News, Ward's Engine Update, Ward's Automotive Reports, American Metal Market, Detroit Free Press, Detroit News, Japan Economic Journal, and Journal of Commerce.

APPENDIX IV

TREATMENT OF JAPAN BY OTHER MAJOR AUTO-PRODUCING COUNTRIES

	Local content		Local production of Japanese cars and trucks	Tariff (percent)	Treatment of Japan
	By law	In practice			
Australia	Yes		Yes	35–57	
Belgium				[4]10.8	Japan's voluntary export restraint (VER) holds its share to 20 percent of Belgium market.
Brazil	Yes		Yes	185–205	
Canada					VER around 20 percent.
France		Yes [2]		[4]10.8	Customs prevents entry of more than 2½ percent of French market.
Germany				[4]10.8	VER at 10 percent of market.
Italy		Yes [2]	Yes	[4]10.8	Allows entry of 2,200 Japanese cars into market.
Japan			Yes	[3]0	
Mexico	Yes		Yes		
Spain	Yes		Yes	68	
UK		Yes [1]	Yes	[4]10.8	VER at 10–11 percent.
US			Yes	2.8	VER over 20 percent.

[1] While holding Japanese companies to less than 11 percent of their market, the UK has negotiated for government-owned BL, Ltd. to build Honda Acclaims under license. They have also been negotiating with Nissan to build Datsuns there with 80 percent content.

[2] France and Italy have treated British-assembled as Japanese imports subject to their stiff quotas because they do not have 70–80 percent European content.

[3] Japan kept out auto imports with prohibitive tariffs on autos until the early 1970s. Since then they have relied on non-tariff barriers and have phased out their tariffs. Their product standards differ substantially from other countries. They individually inspect imported cars rather than follow the U.S. practice of examining a sample of cars and then accepting the manufacturer's self-certification. Dealers of Japanese cars do not sell imported cars, as is commonly done here. As a result of all of these, no foreign auto maker has been able to break out of the vicious cycle of low volumes and high margins for overhead.

[4] Value-added taxes applied to tariffs raise their effective rate to 13–14 percent.

APPENDIX V

UAW COMMENTS ON THE CBO REPORT [1]

The CBO analysis of H.R. 5133 indicates that, with more realistic assumptions, the Fair Practices in Automotive Products Act would generate over a million additional jobs in the U.S. economy by 1990. Their model shows that the Act can create 5.5 jobs in the rest of the economy for every job it creates in the auto industry.

However, the CBO has plugged into their reasonable economic model a set of unrealistic assumptions about 1990:

1. The import share of the market will fall from where it stands today even if the bill is not passed.
2. The U.S. companies' foreign sourcing would not be affected by the bill.
3. No foreign auto company would achieve enough local content under the bill for its sales to exceed 100,000.
4. Japan would retaliate against U.S. exports on a massive scale if the bill is passed.
5. The bill would cause auto prices to rise by 6 percent.

The CBO's micro-level analysis also makes critical errors that lead to a gross underestimate of H.R. 5133's effect on jobs.

UNREALISTIC ASSUMPTIONS IN THE MACROECONOMIC ANALYSIS

The CBO's conclusion that H.R. 5133 would have a negative effect on employment and GNP depends on several unrealistic assumptions. The CBO has nonetheless developed a reasonable macroeconomic model which projects that by 1990 the bill would generate 520,000 additional jobs in the absence of retaliation. With more realistic assumptions plugged in, over a million jobs would be created.

In its final results, the CBO has minimized the benefits of the bill by assuming a very rosy future for the U.S. industry without the bill: the import share of the market would fall from where it stands today, and the U.S. auto companies would not increase foreign sourcing. However, the CBO's own discussion of those two issues in the text of the report does not justify either of those assumptions.

The paper also makes adverse and incorrect assumptions to offset the benefits of the bill: no foreign auto company would make any additional investments or purchases here; Japan would retaliate against U.S. exports on a massive scale; and auto prices would rise by 6 percent.

The error of the CBO's conclusions should become apparent after these five fundamental assumptions are closely examined.

Import share without content lower than today?

The CBO presents a table of projections for the import share of the U.S. vehicle market in 1990 in the absence of content (page 14). The projections range from 23.7 percent to 40.0 percent.[2] In comparison, even with Japanese cars restrained, imports have taken 27 percent of the U.S. vehicle market in recent months and achieved a record 31 percent of the car market in July. Yet, in calculating the bill's effect, the CBO uses only the extreme assumption of 25 percent and does not try the alternative assumption of 40 percent projected by Merrill Lynch Economics nor the 35.8 percent by Chase Econometric.

If, in the absence of content, the foreign share would be 40 percent instead of 25 percent, the jobs at stake would double. The CBO was clearly remiss in not calling attention to this large downside risk.

No limit on U.S. companies' foreign sourcing?

When making its estimate of the bill's effect, the CBO assumes (pages 44–45) that it would have no effect on foreign sourcing by the Big Three. Yet, in an earlier discussion of the issue (page 25), it accurately explains that all three would have to change their plans to stay above 90 percent—on the basis of imported parts alone.

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[1] These comments were written to rebut the August 1982 study, "The Fair Practices in Automotive Products Act (H.R. 5133): An Economic Assessment," by CBO. However, after H.R. 5133 was amended by the House Energy and Commerce Committee, the CBO submitted a revised summary analysis to the House Ways and Means Subcommittee on Trade Sept. 23, 1982. The CBO now assumes that no foreign company's sales would exceed 250,000 and auto prices would rise 3.8 percent. These change the conclusions of assumptions 3 and 5, but do not alter the analytical flaws raised in this critique.

[2] A recent study by a National Academy of Engineering panel, "The Competitive Status of the U.S. Auto Industry", July 26, 1982, considered the possibility that the import share could rise to 65 percent over a similar time period.

Imports of all types of automotive parts are increasing rapidly. According to a recent Commerce Department report, the U.S. is currently importing 2.5 million engines and 1.7 million transmissions on an annual basis, compared to virtually none a few years ago. Recent surveys of auto industry experts conducted by The Detroit News and the University of Michigan predicted continued acceleration of foreign sourcing.

Equally disturbing, the U.S. companies are also planning to increase imports of assembled vehicles. GM has recently announced that it will bring in 200,000 vehicles a year from Japan. Both GM and Ford have been negotiating to import hundreds of thousands of additional vehicles.

No inducement to foreign investment?

The CBO believes that, rather than attempt to maintain their market shares here, all foreign companies would accept a ceiling of 100,000 on their sales here. This makes no sense in the case of VW, which has 70 percent content in the Rabbits it sells here and 40 percent overall. Moreover, Honda will begin with 50 percent content in the cars it will soon assemble in Ohio. It also seems implausible to assume that both Toyota and Nissan/Fuji would watch their sales fall from over 700,000 today to 100,000 by 1990 without even attempting to achieve as little as 25 percent content.

When foreign governments have made local investments and %= of local sales, auto companies around the world have consistently acted to protect their market share. In this case, the U.S. auto market is the largest in the world. This market accounts for the largest chunk of the sales and profits of foreign auto companies outside their home market. It seems safe to assume that they will not walk away from this market.

The CBO does not appreciate how quickly a company can accumulate substantial content. Japanese auto companies build many very different models along a single assembly line. Although the CBO asserts (page 3) that 75 percent content requires local production of both engines and transmission, VW imports both. In fact, four years after announcing its decision to produce in the U.S., VW achieved about 70 percent content on Rabbits produced here.

Japanese auto companies will face considerable pressure to comply with the bill as it is phased in over the decade of the 1980s. To keep their place in the market with sufficient future local content, they must commit themselves to a schedule of large-scale projects almost immediately. In addition, the competition among each other will spur them to achievement of greater local content: Honda's current plans already put compliance within its reach; Nissan's soon-to-open truck plant puts it well ahead of Toyota. No major Japanese producer would be likely to withdraw from the competition to retain the U.S. market share it has worked so long and hard to obtain.

Six percent hike in car prices?

Because the U.S. market would have much more competition than the CBO projects, their prediction of 6 percent higher car prices is too high. In the CBO's analysis, foreign companies' competition with the Big Three would be drastically curtailed: their sales would amount to 3.75 million by 1990 in the absence of content, but only 1.35 with content. Since foreign companies would be able to maintain their current shares of the market, such price increases would not occur.

In drawing conclusions about future prices, the CBO relies on analysis done under contract by the import dealers' association in 1979 (footnote 9, page 21). It dodges (page 33) any analysis of price increases during the more recent and pertinent period. Since restraints on Japanese car exports to the U.S. began in early 1981, list prices of U.S. cars have risen at a 5 to 6 percent rate—less than the nation's inflation average. Moreover, large and expanded rebate programs have meant effective price increases of around 3 percent. Announced price increases for this fall's models portend continued moderation.

The risk of retaliation?

The CBO claims that retaliation is a "highly probable outcome" (page 4) that will nullify the job gains from H.R. 5133. As a practical matter, the bill would affect the plans of companies based only in Japan—and the U.S. The CBO assumes that U.S. exports would be cut by $7.6 billion to match a $7.6 billion reduction in U.S. imports, but undertakes no analysis of Japan's trade. The assumption that such massive retaliation is likely simply cannot be supported by a careful analysis of Japan's trade and the political context of auto policies around the world.

Last year, the U.S. had a deficit in auto trade with Japan of $13 billion out of a total bilateral deficit of $16 billion. So far this year, the overall deficit has widened even further to an annual rate over $20 billion.

Japan has never retaliated against the dozens of countries whose auto restrictions are much tighter than H.R. 5133. Indeed, to achieve or maintain their market presence, Japanese auto companies have invested in many of those countries. In the U.S., as elsewhere, once the Japanese companies have begun to comply in earnest, the Japanese government will be extremely reluctant to pursue a GATT complaint.

Japan could not impose trade sanctions against the U.S. without first going through GATT procedures. In practical terms, even if Japan could win the legal arguments, it has little room to take action against the U.S. If it brings a GATT complaint, the U.S. could file countercharge against the auto policies of many other GATT members in Europe, Australia, Indonesia and Latin America and Japan's cooperation with them. Japan could not win a GATT ruling against the U.S. unless these other policies were ruled out of bounds.

As a practical matter, Japan buys from the U.S. only what it cannot make for itself: raw materials or products using technology it does not yet have. For many of these products, the U.S. is Japan's predominant supplier. For those imports for which Japan has alternative sources, those source countries have auto policies far more restrictive to Japanese auto imports than the proposed U.S. legislation: Australia, Argentina, Brazil, Indonesia for raw materials; European countries for manufactured goods. Why would Japan retaliate against modest U.S. auto content legislation by buying less from us and more from countries with policies which limit their exports more severely?

Critique of the chapter on microeconomic analysis

Turning to the CBO's chapter on microeconomic analysis of the jobs at stake, we find more large errors. Just as in the chapter on macroeconomic analysis, these errors systematically bias the positive results of the bill in a downward direction.

The CBO estimates that the additional cars produced here under the bill would require about 200 hours to build. It finds that, although the UAW analysis was not put in that framework, we have implicitly assumed two-and-a-half times that many hours. To reconcile the difference, the CBO argues that we failed to make several adjustments which would have reduced our estimate to 225 hours. We find the CBO's evidence and arguments to be quite flawed with respect to the two adjustments.

In making its biggest adjustment, the CBO relies on incorrect and unrepresentative data from Ford Motor Company. Arguing that "marginal labor requirements are less than average labor inputs," it uses 1976–1980 Ford data to conclude that we have overstated labor requirements by 60 percent. In fact, the CBO has used Ford's U.S. sales figures and not its production figures and used average employees-on-the-payroll figures during a strike year (1976). When production figures are used and output lost due to the strike is included, Ford's marginal vehicle output to employment ratio between 1976 and 1978 is 12—less than its average ratio of 13.4. A similar exercise for GM's vehicles per production worker [3] also yields a marginal ratio (10.2) less than the average ratio (14.4).

Even if the numbers had supported their conclusion, the CBO has used faulty methodology in making an industry-wide projection for 1990 based on two-year cyclical swings within one large company. During such a short period, companies often adjust overtime or days worked rather than employment. For example, average overtime in the auto industry rose from 2.6 to 6.8 hours per week between 1975 and 1977. This results in the CBO's measure of vehicles per employee changing more than vehicles per hour, which is the pertinent ratio.

Over longer periods, companies as a whole contract (or expand) by closing plants and reducing (increasing) employment in both production and overhead. In addition, of the thousands of companies involved in the auto industry, many will go out of business altogether, particularly if the bill is not passed. By the same token, if the bill is passed, major foreign auto companies would begin to operate plants here. All of these considerations favor using the average employment to output ratio when making the 1990 estimate of added jobs from added production.

The CBO's next largest adjustment factor—to exclude most replacement parts—is similarly mistaken on both empirical and practical grounds. It relies on a report that replacement parts at retail amounted to $36 billion in 1981. It then assumes that both the vehicle and the replacement parts industries have the same ratio of jobs to value of retail sales. However, that assumption is invalid since it is well-known that to buy all the parts for a car separately at retail would cost several times the price of that car.

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[3] The number of GM's total U.S. empolyees was not published for 1976.

Although the CBO finds that the value of retail sales of replacement parts comprises 28 percent of the total for replacement parts and cars, it reduces that to a 20 percent adjustment factor. We believe that no such adjustment factor is warranted. Replacement parts are not directly covered by the bill, but the CBO concedes that the locations of some replacement parts production will be influenced by the location of production for original equipment. On the other hand, we believe that for the vast majority of replacement parts, the location of original equipment production will determine where they are produced as well. Therefore, estimates of the effect of the bill should include virtually all replacement parts workers in the affected employment base.

Although we cannot accept the two large adjustments discussed above, we can accept two small adjustments: workers making heavy trucks and buses should be excluded; and the additional cars produced will probably be smaller on average than the average cars produced in the U.S. last year. With these two adjustments, our estimate for the hours per additional car produced still exceeds twice the CBO estimate.

Our rough estimate of over 400 hours per small car is entirely consistent with information published by the U.S. auto companies. For example, GM produced about 9.5 vehicles per employee[4] in 1981, and its outside purchases amounted to over twice its payments to employees. Since employees at GM suppliers are paid less per hour than its own employees, total employment in supplying (and subsupplying) GM is substantially more than double GM's employment. This difference in labor costs probably offsets the adjustment for size of cars and GM employment outside of cars and light trucks. Thus, an American job is created by fewer than every four small GM vehicles produced.

Indeed, it is important to note that the "industry studies" figure of 175 hours per car—which the CBO goes to such lengths to "reconcile" with the much larger figure implied by BLS data—is conceptually inappropriate for determining the number of jobs related to an increase in vehicle production. Whatever its relevance to company cost accounting—the use for which the "industry studies" approach is intended—this approach is inherently unsuited to employment analysis, since it greatly understates employment impacts. Where in the "175 hours," for example, are the jobs of distribution sector workers who transport components from parts plants to final assembly? Where are the jobs of workers who make machine tools purchased by the auto companies for use in the manufacture of vehicles? From the standpoint of employment analysis, there is no justification for overlooking these and countless other jobs directly related to an increase in vehicle production.

A proper anlysis of the direct jobs impact of an increase in vehicle production should include all such "direct" workers in the employment base, including truck drivers, machine tool builders, etc. For purposes of determining this base, BLS employment data—without CBO's spurious and unwarranted "adjustments"—are far more appropriate than the "industry studies" data cited by CBO.

After failing through unjustified adjustments to reduce the BLS data below 225 hours, CBO arbitrarily "splits the difference" between that 225 hours and the 175 hours of "industry studies" (also adjusted), and utilizes 200 hours-per-vehicle in its employment impact analysis.

In summary, our review of both the macroeconomic and microeconomic analysis by the CBO shows that its estimates of the jobs at stake are substantially less than half of what is appropriate. Since their analysis still shows 520,000 jobs at stake, an accurate estimate would exceed a million jobs.

APPENDIX VI

[From Automotive News, Feb. 18, 1980]

EDITORIAL OPINION—END THE HYSTERIA

Heated debate over the future of imported cars in this market erupted during the recent NADA convention and quickly came to dominate the New Orleans sessions. A great amount of heat and not much light was generated.

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[4] Some 522,000 U.S. workers at GM produced 4,611,000 vehicles in 1981, for a ratio of 8.83 vehicles per worker. We've made a rough adjustment for the fact that 6.9 percent of GM's worldwide sales—no employment breakdown is published—were derived from non-auto operations.

Sentiment runs from one extreme to the other: All the way from keeping the market totally free to slamming the door. The stands taken seem largely emotional, based on gut reaction. We think it is time to end the hysteria.

Before it is too late, and before action is taken that is ill advised and could be sincerely regretted later, some sensible decisions must be made.

Now is the time to begin rational debate, aimed toward reaching an equitable decision on import participation.

We still believe that the Automotive News proposal, set forth here a week ago, could well be used as a benchmark. To recap briefly, we think any non-North American automobile should be able to enter the U.S. with no restrictions so long as its volume does not exceed 50,000 units a year. But for each additional 50,000, local content on the total number of cars should be 5 percent. If an auto importer sold 50,001 cars, his cars would have 5 percent local content. If he sold 100,001 cars, his local content would go up another 5 percentage points to a total of 10 percent, and so on. The local-content requirement would reach a maximum of 50 percent when annual sales reached 500,001.

Such a program, we believe, could be implemented immediately, with one-fifth of the appropriate percentage applied right away and increased over the next five years until it reached the proper amount required by sales volume. This would give imports enough lead time to reach the required local content.

We would much prefer that all of the imports would accept this formula voluntarily or, at the very least, work from this as a benchmark.

What we fear is that the government will become involved and produce a complex "solution" that will turn out to be a problem all its own.

If what surfaced at the NADA convention is any indication of what lies ahead, there is going to be too much hotheadedness involved in sorting out the situation. We saw a lot of this—on both sides—at the NADA convention.

The issue must be defused and an equitable solution must be reached. There is not much time left.

Appendix VII

[From Business Week, Apr. 13, 1981]

A Better Way To Handle Auto Imports

The U.S. automobile industry can make a strong case for some sort of protection against Japanese imports while it retools to serve the small-car market. But instead of slapping a tariff on Japanese cars or negotiating import quotas, Washington should consider a device that is rarely mentioned: requiring imported autos to contain a specified percentage of parts made in the U.S.

One big advantage of this approach is that it would create jobs in the U.S. auto centers without shutting off the profits of Japanese companies or making it impossible for U.S. consumers to buy the kind of car they want. And whereas a tariff would involve the threat of retaliation and a negotiated quota would call for some sort of quid pro quo, a local content requirement would cause a minimum of disruption in ordinary channels of trade.

Another point in favor of the requirement is that it would leave the free market to decide which U.S. suppliers got the Japanese parts business. Hot competitive bidding would put a premium on efficiency and reliability of products. The requirement, therefore, would not provide a shelter for incompetent, high-cost operations—as a tariff would. And it would not protect companies that yielded to union pressure and conceded overgenerous wage and benefit increases. The competing company that held the line on labor costs would be able to carry off the business.

Practically every industrial nation in the world—except the U.S.—has imposed a local content requirement on imports for years. Detroit, of course, would rather have the comfortable protection of traiffs or a quota. But a local content requirement could help the U.S. economy without touching off a trade war.

[The following information was subsequently received for the record:]

Questions of the Committee and the Answers Thereto

Question 1. Please compare the three major versions of automobile domestic content legislation that surfaced during the 97th Congress: S. 2300; H.R. 5133, as reported by the House Committee on Energy and Commerce; and H.R. 5133, as passed by the House on December 15, 1982. Do you favor all three versions? In particular, please comment on the action by the House to amend H.R. 5133 to provide that "nothing in this Act shall be deemed to supersede the terms and conditions of any treaty international convention or agreement on tariffs and trade which is in existence on the date of enactment of this Act and to which the United States is a party."

Answer. All three versions, S. 2300, H.R. 5133, as reported by the House Committee on Energy and Commerce, and H.R. 5133, as passed by the House, impose a schedule of local content requirements on auto companies with large sales in the U.S. S. 2300 requires 25 percent in the range 100,000 to 150,000, 50 percent from 150,000 to 200,000, 75 percent from 200,001 to 500,000 and 90 percent above 500,000. The two versions of H.R. 5133, to which the question refers, have a schedule beginning at 10 percent at 100,001, rising to 90 percent at 900,000 and above. Two minor changes were made by the full House: one authorizes a study by the Department of Agriculture of the effects on U.S. agricultural trade; the second is the so-called Fenwick Amendment quoted in the question. We opposed the Fenwick Amendment on grounds that the Act would not violate the GATT or other international agreements and that GATT procedures should be used to resolve GATT issues. More than 30 countries have local content measures covering their auto industries and none has ever been challenged under the GATT. All countries with substantial auto industries have intervened to control auto trade. The GATT regularly decides whether national laws conflict with GATT rules by assembling a panel of judges who have the expertise to decide such issues.

Question 2. If Japan lifted all discriminatory barriers to sales of U.S. cars in Japan, would the U.S. share of Japan sales increase signficantly? Would you still favor domestic content legislation?

Answer. If Japan lifted its barriers, U.S. car sales would probably increase significantly from their current paltry level. However, our support for domestic content legislation is attributable to the auto situation around the world, of which Japan is only one important part, and our hope to stimulate investment in this country which will create and preserve jobs for American workers. The bill is designed to address structural problems facing one of our basic industries which is so important to our economic and national security.

Question 3. Please enumerate the assumptions that underlie your estimate that domestic content legislation would "create or preserve over one million jobs." What are the principal differences between this set of assumptions and the assumptions made by the Department of Commerce and the Congressional Budget Office in their studies? What justifies your approach in each instance? Does your estimate of the employment impact of this legislation differ depending on which version of the domestic content bill is being considered?

Answer. For the assumptions underlying our estimate that the legislation would "create or preserve over one million jobs", please see the attached sheet. To get their results, both the Department of Commerce and CBO, in our judgment, indulged in unrealistic assumptions. They effectively assumed away the problems of rising vehicle imports and foreign sourcing of parts. At the same time, they assumed a large and, we believe, totally unjustified problem of retaliation.

Question 4. Do you have any estimate of the impact of domestic content legislation on employment at U.S. ports and foreign car dealerships and assembly plants located in the United States? What is your reaction to the Department of Commerce estimate that 118,000 to 168,000 U.S. jobs could be lost at these facilities? What is your reaction to the Department of Transportation estimate that up to 11,600 direct jobs would be lost and up to 81,200 indirect jobs would be in jeopardy at 14 U.S. ports?

Answer. Our estimates indicated that this legislation would have only a negligible effect on jobs at import dealers and ports. Since we believe that foreign and domestic auto companies, could maintain their current market shares, we do not believe the legislation will affect dealership employment. We also believe that few if any net loss of jobs would occur at ports. Fewer vehicles would be imported, but that would be offset by: (1) more parts imported for assembly here by foreign companies; (2) more auto exports from the United States as companies achieve content through exports; and (3) more U.S. trade coming from a healthier U.S. economy. In "Toyota and the American Society", a publication that otherwise exaggerates its benefits to the U.S. economy, Toyota estimated that dock-related jobs handling 700,000 plus Toyotas amounted to 1,809 as of August 1, 1981. Since Toyotas comprise about a quarter of auto imports, total dock jobs involved probably amount to 7,200. Thus the total number of jobs involved in unloading vehicles, using this estimate, is far lower than those in your question.

Question 5. Is automobile content legislation such as S. 2300 and H.R. 5133 a violation of the General Agreements on Tariffs and Trade?

Answer. None of the thirty-plus countries' auto content rules has ever been held to violate the GATT, and neither would S. 2300/H.R. 5133.

Question 6. Please catalogue Japan's tariff and non-tariff barriers to the sale of U.S.-built cars in Japan. Which of these barriers are not applied (or not applied in the same way) to imports of European cars into Japan?

Answer. Japan uses its standards, inspection procedures, commodity tax structure, and absence of "dual dealers" as barriers to the sale of U.S.-built cars in Japan. European cars face the same barriers. Total vehicle imports into Japan comprise less than 1 percent of the Japanese market. The U.S. share is one-tenth of 1 percent.

Question 7. Could you detail specifically on what grounds "the U.S. could file countercharges against the auto policies of Japan" under GATT, as you state in your testimony?

Answer. In the context of a GATT complaint against U.S. auto content legislation, the U.S. could complain in the GATT about the auto policies of other auto-producing nations, including Japan, not only for its import-discriminating policies but its cooperation with stiff restraints in other countries which has diverted more vehicles to the United States.

Question 8. Could you expand upon your basis for asserting in Appendix IV of your testimony, that France, Italy, and England impose "de facto" domestic content requirements? What is your source for this information? By these same criteria, would the U.S. already have "de facto" domestic content requirements?

Answer. France and Italy impose very stiff quotas on Japanese vehicles (2½ percent and 2,200 vehicles respectively). Japanese companies can sell more in those countries only be making their vehicles there (as Nissan is doing in joint venture with Alfa Romeo in Italy) or by achieving 80 percent EC-content in EC-assembled vehicles. France and Italy consider the Honda Acclaims built in the U.K. with 50 percent EC-content to be Japanese vehicles subject to their quota on Japan. The U.K. has been negotiating for Nissan to build an assembly plant there, but insists on 80 percent content. Information on these practices come from the Economist, Financial Times, and Wall Street Journal. The U.S. has no such de facto requirements.

Question 9. What have been the causes of the current slump in the domestic auto industry? Which among these are the principal causes? Are auto imports one of principal causes of the decline in U.S. car sales by domestic manufacturers from 9.3 million units in 1978 to 6.2 million units in 1982? Which of the principal causes of the auto slump are addressed by the proposed domestic content legislation?

Answer. The current slump in the domestic auto industry has many causes, including tight monetary policy, rising vehicle imports, rising foreign sourcing of auto parts, rising unemployment, and since autos are a postponable purchase, the economic depression generally. Both vehicle and parts imports and unemployment are principal causes and are addressed by this legislation, which is needed in addition to a general economic recovery.

JOBS IMPACT OF CONTENT

It is our analysis that, if the domestic auto content bill is enacted during the 1983 model year, by 1986 the U.S. stands to gain 637,000 jobs. Of these, 150,000 would be in the auto industry itself—mainly at new Toyota and Nissan plants—and 487,000 in other industries. By 1990, the law would create or preserve 1,386,000 jobs that would otherwise be lost. Of those, 213,000 would be at auto companies.

	1986	1990
Core auto jobs	150,000	213,000
Other U.S. jobs	487,000	1,173,000
Total	637,000	1,386,000

Basis for figures.—Without content requirements, the import share of the U.S. car and light truck market will rise from 28 percent in 1982 to 35 percent in 1986 and 40 percent in 1990; with content, it would stay at 28 percent. Without content, the U.S. content of domestic-based companies' vehicles will fall from 95 percent today to 85 percent in 1986 and 80 percent in 1990; with content, it would only be able to fall to 90 percent. Without local content requirements, vehicles sold here by foreign-based producers will average less than 20 percent U.S. content; with content, they'll average 51 percent.[1] Each auto job is associated with 3.25 other U.S. jobs in 1986 and 5.5 other jobs in 1990.

The **CHAIRMAN**. I hope we can get done with the next panel before there are some more votes. Let us take Secretary Sprinkel and Secretary Lodwick now. Gentlemen go right ahead, and I hope you get a chance to finish.

STATEMENT OF BERYL W. SPRINKEL, UNDER SECRETARY FOR MONETARY AFFAIRS, DEPARTMENT OF THE TREASURY

Mr. **SPRINKEL**. Thank you, Mr. Senator.

The **CHAIRMAN**. Your statements will be in the record in their entirety.

Mr. **SPRINKEL**. I appreciate the opportunity to appear before this committee, and I am particularly pleased to present the Treasury's view on what we consider——

The **CHAIRMAN**. I apologize for interrupting you, but I think there is going to be a series of votes. I think it might be appropriate to terminate this hearing. I do not even know at what stage I could call it back together. We have got witnesses all day tomorrow, and we will be faced with this same problem. I apologize to those of you who have been out there a long time. There is no point in my wasting your time sitting there any longer.

I would like to apologize to Mr. Turner, Mr. Koplan, and Mr. Gleason, who have been there. I simply have no control over this.

Mr. **LODWICK**. Senator, would it be helpful if we file our statements for the record?

The **CHAIRMAN**. Oh, yes. I would appreciate it if all the witnesses would turn them in. I had some questions, and I would like to submit them to you in writing. I want the statements in the record.

[The statements and questions and answers follow:]

STATEMENT OF BERYL W. SPRINKEL, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS

I welcome the opportunity to present the Treasury Department's views on the single most troubling piece of trade legislation to be considered since Smoot-Hawley: the proposed bill to impose local content requirements on automobile sales in the United States. Although introduced in a well-intentioned effort to preserve jobs in the hard-hit auto industry, local content would have profound negative implications for our own economy, the international trading system, and ultimately, the people it would be intended to help—the average working men and women in America.

The Administration strongly opposes local content legislation in any form whatsoever. In general, such legislation would: Be a giant step away from the open market economy that benefits us all; transfer income from U.S. consumers and exporters to auto workers and parts producers; mortgage the future of the auto industry and prevent the adjustment necessary to have a viable automobile industry in this country; jeopardize jobs in the export sector; violate U.S. international obligations on an unprecedented scale and conflict with the recent GATT Ministerial commitment to "refrain from taking or maintaining measures inconsistent with the GATT"; threaten the unraveling of the international trading system; and stifel worldwide economic recovery.

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[1] (a) Without law: Renault/AMC at 70 percent U.S. content, VW at 40 percent, Honda at 31 percent, Nissan/Fuji at 13 percent, and all other imports at 6 percent, based on 1981 sales level.

(b) With law: Nissan/Fuji at 74 percent U.S. content, Toyota at 71 percent, Renault/AMC at 70 percent, VW at 40 percent, Honda at 37 percent, Toyo Kogyo at 25 percent, Mitsubishi at 15 percent, and all other imports at 6 percent, based on 1981 sales levels.

Source.—U.S. Congressional Budget Office, "The Fair Practices in Automotive Products Act: An Economic Assessment," August 1982.

Today, however, I would like to concentrate my remarks on my deep concern about the adverse implications of this legislation for the U.S. economy. When we ask ourselves whether this legislation contributes to the type of economy we all want—one that is efficient, prosperous, and able to adjust to changing economic circumstances—the answer is clearly no.

PERMANENT PROTECTION

Local content legislation provides permanent protection for industries. The basic principle of local content is that local inputs must be used whether or not they are competitive. If local inputs are competitive, the legislation is not necessary. If they are not competitive, the legislation protects and rewards inefficiency while forcing U.S. consumers to pay the costs; i.e., it is a hidden inflationary tax falling on those who must purchase cars.

Moreover, there would be no incentive to keep U.S. costs down (in fact, the higher U.S. costs, the easier it is to meet the local content requirement). Application of this principle to the economy as a whole would doom us to an unproductive, inflationary, inefficient economy. It is for these reasons that the Administration is opposed to the principle of local content.

As you know, the U.S. auto industry is currently engaged in a massive effort to meet intense foreign competition in the U.S. market. It is seeking to improve productivity, to become more innovative and efficient, and to offer consumers once again the kinds of autos they demand. Local content legislation can only thwart these efforts, at a cost to the rest of the economy. Let me elaborate.

Local content legislation is an especially deadly form of protectionism. It flies in the face of adjustment to international competition and seeks to repeal the economic laws of comparative advantage. By offering long-term protection with no incentives for efficiency it promotes a perpetually inefficient industry that can ultimately only be protected at a cost to the rest of the economy.

Our objections to local content are not merely theoretical. Take, for example, the OECD experience. Of the twenty-two OECD member countries only Greece, Portugal, Turkey, Spain, and Australia impose local content requirements. As a group, these countries are not noted for the efficiency of their auto industries. Indeed, the Australian experience has led to a high cost, inefficient industry which has led to calls by consumer groups for trade liberalization. Australian automobile production and employment have continued to fall despite the estimated 1 billion dollar per year cost to consumers.

In September, the stringent parts and labor requirements contained in the original bill, S. 2300, were modified in an effort to make local content less onerous. The result was the Ottinger bill which we are primarily considering today. This legislation broadens the concept of local content from parts and labor to include items such as taxes, advertising, overhead and variable profits.

According to our analysis, this legislation now has the pradoxical effect of tying the hands of U.S. auto manufacturers with high levels of local content while apparently permitting numerous smaller foreign manufacurers to nip at their heels.

Because of their high volume of sales, U.S. manufacturers would have to meet local content requirements of 90 percent. In return, they would be protected from any one foreign manufacturer getting a large share of the U.S. market without meeting similar requirements. They would not, however, be protected from imports in general. Under the broad definition of local content, many manufacturers may be able to sell as many as 400,000 cars annually apiece without substantial increases in purchases of U.S. parts or investment in U.S. production facilities.

The impact on the U.S. auto industry would be substantial. At a time when the industry is beginning to make the necessary adjustments, this bill would preclude it from competitive worldwide sourcing, while leaving the industry vulnerable to imports from many foriegn manufacturers with fewer U.S. sales which would not suffer the inefficiencies prompted by local content requirements.

The problem with this local content legislation, however, is not that it is unfair to the U.S. industry and too soft on imports. Rather, the problem is with the concept of local content itself. Adopting ineffective local content legislation now only opens the door to stricter local content requirements later, with enormous future costs.

COSTS OF LOCAL CONTENT LEGISLATION

Again, let me emphasize that the Adminisration's opposition is not limited just to the Ottinger bill. There are no "fixes" that will make the concept of local content legislation acceptable to this Administration.

There are additional costs to the economy besides the inefficiency inherent in local content legislation. Implicit in local content legislation is acceptance of the prinicple that it is acceptable public policy to require transfer payments from the rest of the economy to a particular sector, in this instance auto workers and parts producers. Indeed, this bill could be labeled an income redistribution bill designed to have the average American's income "taxed" and redistributed to automobile industry workers and managers.

Although difficult to estimate, U.S. consumers can expect to pay more for automobiles as a result of reduced foreign competition and a more inefficient domestic industry. U.S. exporters, generally our most efficient industries, can also expect to suffer. If other countries retaliate by restricting imports of U.S. agricultural products or export-dependent industrial goods, or if they mimic U.S. content requirement for other products, U.S. exports will pay the price of protection for the auto industry at home. As auto exporting countries earn less income from their auto exports to the United States, their ability to purchase U.S. goods will also be diminished. Such countries may also purposefully choose to purchase non-U.S. products whenever they can as a subtle, indirect form of retaliation. The potential risk to our exporting industries is substantial and must not be ignored—especially at a time when U.S. industries are clamoring for increased government assistance to exports.

The nature and extent of any jobs gain in the auto industry from this legislation is questionable. There is, however, no question that the legislation itself would jeopardize jobs in other parts of the economy, such as the export and auto import-handling sector. It would also cost the economy in terms of higher prices for consumers and through the closing of imported auto dealerships.

Perhaps most costly, however, would be the long-term shrinkage of world trade which this measure would almost certainly entail. With the United States taking such a protectionist step, despite our recent commitment to refrain from such measures, other countries are almost certain to follow with similar protective measures for their ailing industries. Heretofore, local content legislation has been employed primarily by developing countries. Its adoption by the United States would legitimize its adoption, with all the attendant costs, by other developed economies. Even if other countries failed to adopt local content legislation, they would feel less constrained in adopting other creative protective measures. Local content legislation would thus be the first arc in a protectionist spiral which can only lead to reduced global, as well as U.S., income and well-being.

Clearly, the burden on the rest of the economy from such legislation is too high.

WE CANNOT REPEAL THE LAWS OF ECONOMICS

The United States cannot afford the luxury of passing legislation which inevitably promotes a noncompetitive industry, which would act as a drag on the entire economy. The economic law of comparative advantage will still exist. This legislation won't change it. Rather, we must adopt policies to promote industries which are competitive domestically and worldwide, which contribute to sustained non-inflationary growth. We cannot afford to foster industries which thwart these goals and must be supported at a high cost to the rest of the economy.

Once instituted, these types of protectionist policies substitute political judgments for economic realities. How would the Congress stop? How would other countries stop? How many industries can we protect this way and still claim we have a free economy?

Trade restrictions are not the answer to the fundamental economic problems plaguing the U.S. and world economy and heightening protectionist pressures everywhere. Other countries are also suffering the effect of recession and look to the United States for help in resisting these protectionist pressures. If we adopt this legislation we will be setting a protectionist tone for world trade for years to come. A better answer lies in the broader macroeconomic policies this Administration has been pursuing to create the environment in which U.S. industries can again become healthy, vigorous and competitive.

The recession in the United States has bottomed out. As the economy picks up steam in the spring, new car sales will increase. The solution to lagging automobile sales in not protectionism; the solution is sustained economic growth. We have made the transition and I am optimistic about our chances for recovery.

QUESTIONS OF THE COMMITTEE AND THE ANSWERS THERETO

Question. Please compare the three major versions of automobile domestic content legislation that surfaced during the 97th Congress: S: 2300; H.R. 5133 as reported by the House Committee on Energy and Commerce; and H.R. 5133 as passed by the

House on December 15, 1982. Do you oppose all three versions? In particular, please comment on the action by the House to amend H.R. 5133 to provide that "nothing in this Act shall be deemed to supercede the terms and conditions of any treaty, international convention or agreement on tariffs and trade which is in existence on the date of enactment of this Act and to which the United States is a party."

Answer. H.R. 5133, as reported by the House Committee on Commerce and Energy, differs from S. 2300 primarily in the definition of local content. In an apparent attempt to make local content less onerous, the stringent parts and labor requirements contained in the original H.R. 5133, as well as S. 2300 were relaxed to include items such as depreciation, taxes, interest, and utilities by defining local as total U.S. sales plus exports minus imports instead of U.S. parts and labor alone. H.R. 5133 as reported also lengthened the phase-in period for local content requirements and established a more graduated scale of requirements based on the ratio of the manufacturer's production and a set number (10,000 in 1985), rather than the set percentage requirements in S. 2300.

The House further amended H.R. 5133 to provide that "nothing in this Act shall be deemed to supercede the terms and conditions of any treaty, international convention or agreement on tariffs and trade which is in existence on the date of enactment of this Act and to which the United States is a party." Although the intent of this amendment is to weaken the legislation, the actual effect is ambiguous and will no doubt be subject to court challenge no matter how it is interpreted.

The Administration, however, continues to oppose local content legislation in any form. It is the principle of local content legislation which we oppose, not the specific provisions of a particular bill. There are no "fixes" which will make local content legislation acceptable.

Question. How would domestic content legislation, especially H.R. 5133 as reported by the House Committee on Energy and Commerce, affect U.S. manufacturers in their ability to compete with imports? What are the implications for the long run ability of U.S. manufacturers to compete in a world market?

Answer. U.S. manufacturers would be greatly hampered in their efforts to compete with imports by domestic content legislation, especially H.R. 5133 as reported. Because of their high level of sales in the United States, U.S. manufacturers would have to meet a 90 percent domestic content requirement, which would effectively preclude them from competitive part sourcing. Foreign manufacturers with a lower level of sales in the United States would have to meet a lower level of domestic content and would be able to continue source parts competitively, giving them an advantage over U.S. manufacturers. Foreign manufacturers with U.S. annual sales of 900,000 would have to met the same requirement as domestic manufacturers.

In the long run, by precluding competitive sourcing of parts and eliminating incentives to keep costs down (the higher local costs, the easier it is to meet the requirements), local content legislation will destroy the ability of U.S. manufacturers to compete in the world market.

Question. Could you please elaborate on your view that domestic content legislation is, in effect, "an income redistribution" bill?

Answer. Local content legislation is, in effect, an income redistribution bill in the following sense: The intent of local content legislation is to ensure that U.S. parts and labor are used in the manufacture of automobiles for sale in the United States. The unfortunate effect of the legislation, however, is that increased income for parts suppliers and auto workers will necessarily be at the expense of U.S. auto consumers and exporters.

Auto consumers will have to pay more for their automobile purchases as competition from imports diminishes and the disincentive to improve productivity inherent in local content legislation takes effect. U.S. export industries can also expect to pay the price of local content legislation as their sales decline whether through potential retaliation or reduced foreign income available to spend on U.S. products. Thus, the effect of local content legislation is to "tax" U.S. auto consumers and exporters for the benefit of U.S. auto workers and parts suppliers.

Question. Has the Economic Recovery Tax Act of 1981 assisted the auto industry?

Answer. Yes. The Economic Recovery Tax Act of 1981 (ERTA) increased the total value of depreciation deductions and investment credits claimable by the automobile industry on the average new investment.

The investment credit rates claimable pre-ERTA was 3.33 percent on 3-year equipment, 6.67 percent on 5-year equipment and 10 percent on 7-year equipment. The accelerated cost recovery system allowed a 6 percent credit on 3-year equipment and a 10 percent credit on equipment with a life of 5 years or more. In addition, machinery and equipment depreciation schedules were simplified and generally accelerated into categories of 3-, 5-, and 10-year lives. The result was a substantial reduction in the overall effective corporate tax rate applied to new investments in the automobile industry.

Using the observed investment pattern of the motor vehicle industry, effective tax rates are shown on investments pre-ERTA, during 1981 and 1982, and in the future under the Tax Equity and Fiscal Responibility Act of 1982.

EFFECTIVE TAX RATES ON NEW DEPRECIABLE ASSESTS

	Pre-ERTA	1981–82 law	Post 1982
Motor vehicles	26.0	−11.5	9.0
Average for all industries	42.2	21.8	28.4

Note.—Assumes a 4 percent real after-tax rate of return and 6 percent inflation.

The lower tax rates on investment in the automobile industry relative to other industries is the result of the relativley intesive use of short-lived machinery and equipment that generally is subject to lower overall tax rates.

While ACRS makes available more favorable investment incentives, the ability of automobile manufacturers to invest and fully utilize these incentives depends on a number of factors other than the tax system.

Statement of Seeley Lodwick, Under Secretary for International Affairs and Commodity Programs, U.S. Department of Agriculture

Mr. Chairman and members of the Committee, I appreciate the opportunity to present the Department of Agriculture's views on S. 2300, a bill to establish local content requirements for motor vehicles sold in the United States.

We strongly oppose this legislation, which would require an estimated 25 percent reduction in imports of automobiles and parts from any manufacturers not using a specified percentage of American-made components in the vehicle. And we are strongly opposed to other protectionist legislation under consideration by the Congress.

In terms of the general economy, we agree with Ambassador Brock's statement that the bill "is the worst threat to the international trading system and our own prosperity to be put before the Congress in a decade."

In terms of agriculture in particular, passage of this legislation would be a disaster. U.S. farmers, who depend on export trade for one-fourth of their income as an outlet for the harvest from two-fifths of their cropland, would be severely damaged. So would business throughout America, both rural and urban.

The well-publicized financial troubles of the International Harvester Company are only one reflection of the slumping farm economy. Farmers are leading consumers of steel and rubber, which go into their tractors and other equipment; they bought more than $9 billion worth of fertilizer last year and use up to three-fourths of the pesticides produced by the U.S. chemical industry. They buy shoes, clothes, machinery, appliances and automobiles on Main Street, where economic life is geared to the farm economy.

Their ability to buy is heavily dependent on their ability to export. It is no statistical anomaly that the decline in farm income coincides with a decline in farm exports, which were down last fiscal year for the first time in 13 years and are expected to decline again this year.

So it is not surprising that exports are a top priority in agriculture, and that the administration is pressing hard to remove obstacles to international trade to get U.S. agricultural exports moving upward again.

We are in a period of discussions with U.S. agriculture's two leading trading partners, Japan and the European Community, that hold promise of positive results. Passage of this bill would seriously undermine these efforts to liberalize trade, and it would jeopardize our existing position in these two markets.

The legislation violates our obligations under the General Agreement on Tariffs and Trade (GATT). Its passage would almost certainly invite retaliation by both the EC and Japan. This would put at risk some $15 billion yearly in U.S. agricultural exports to these countries.

These are some of the consequences of retaliation:

Overall it is estimated that the loss of U.S. jobs would be in the 25,000–30,000 range for each billion dollars in agricultural exports lost.

Japan is our largest single country market for farm products with the total reaching $6.6 billion last year. It is our largest feedgrain market and is one of the top markets for wheat and soybeans as well.

An estimated 1 of every 20 acres in the U.S. produces for the Japanese market; more area is planted for the Japanese market than in Japan itself.

Japan is a reliable customer and we are a reliable source of agricultural products, but we do face strong competition from other agricultural exporting nations such as Canada, Brazil, Argentina and Australia. Japan could retaliate against a devastating blow to its auto market by shifting some of its purchases to those competing suppliers.

Although the loss in U.S. farm exports to Japan could be offset in the short-term by a diversion of trade to markets left unfilled by our competitors as they move to meet greater Japanese demand, the long-term loss would be great. Competitors would expand production to meet both their traditional and expanded Japanese markets and the U.S. share of world markets would decline.

We have been pressing the Japanese almost continuously for liberalization of their import structure, particularly their system of high tariffs, quotas and other non-tariff barriers.

Our principal concerns at this time are quotas on beef, citrus, fruit juices and leather, but there are many more items under quota, including dry beans, flour, peanuts, dairy products and others. Tariffs are inordinately high on such products as soy proteins, chocolate confectioneries, lumber, and plywood. We are attempting to break down non-tariff barriers such as the restrictive cigarette import policies of the Japan Tobacco Monopoly.

We have achieved some very modest concessions, but are far short of our goal of the elimination of Japan's import restrictions on beef and citrus products. We started talks in October with the Japanese but they were not prepared to make offers on these important commodities. We expect that there will be movement over the next few weeks to come to grips with the issue. We do not want to jeopardize these prospects.

Certain factions within the EC have been seeking for nearly 20 years to overturn its commitments in GATT to import oilseeds, oilcake, and nongrain feed ingredients, such as corn gluten, free of import duties and restrictions. This legislation may provide those factions with exactly the excuse needed to move the EC to restrict these imports.

In 1981 the European Community's imports of oilseeds, oilcake and nongrain feed ingredients totaled $4.5 billion. We export over half of our soybean and soybean products and the EC buys nearly half of these exports.

We have successfully opposed EC efforts to restrict imports of oilseeds and nongrain feeds on the ground that such actions would be inconsistent with EC GATT obligations and we currently have several actions before the GATT, contending the EC export subsidies and related agricultural trade policies violate the GATT.

This legislation would undercut those positions.

Meanwhile, the U.S. delegation at the GATT Ministerial in Geneva last month stood firm against EC attempts to brush aside the issue of export subsidies.

Groundwork was laid to give this and other agricultural matters high priority at the U.S.-EC Commission cabinet level meeting in Brussels last week. From this came agreement to begin serious work at a meeting in Washington in January toward restoring order in agricultural trade conducted by the United States and the EC.

These talks, those shaping up with Japan, and the total U.S. effort to improve the climate for more liberal trade would be undermined if this legislation is enacted.

That, Mr. Chairman, is a brief review of the consequences to agriculture that could result from S. 2300. Thank you for the opportunity to testify. I will be happy to respond to any further questions.

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

The AFL-CIO welcomes this opportunity to support S. 2300, the Fair Practices in Automotive Products Act. This bill is designed to promote an efficient U.S. auto industry and the many U.S. supporting industries related to auto production. S. 2300 is a job-creation bill whose effect can assure over one million jobs in this economy. The AFL-CIO urges its speedy enactment.

Gentlemen, many times in the past the AFL-CIO has come before Congressional committees asking for Congressional help to save American industries and jobs. Too often the responses have been too little or too late or not at all. Year after year the strong, broadbased industrial machine that was America has been weakened and its workers displaced, not because these industries have become obsolete but because these industries have been overwhelmed by foreign trade practices.

Now we face an emergency situation involving an industry that is basic to our economy and whose fate could decide whether this nation will regain its productive health or slide into a depression. In each previous post-war recession, the lead of the auto and the housing sector have been keys to the overall economy. Therefore, to us, this legislation is of the greatest importance. The AFL-CIO represents 14½ million workers who are important to our society as breadwinners, consumers and taxpayers. Many of these members are in the automotive industry, directly or indirectly and their jobs are threatened by the massive imports of foreign-made automobiles, trucks and parts. Already tens of thousands have lost their jobs in rubber, steel, aluminum, glass, textiles, paper, electronics and plastics—as well as directly in the auto industry—because of this threat.

More than one million auto jobs have been affected by imports, and the number is rising sharply, and the ripple effect is having a smothering effect on the U.S. economy.

Since 1978 more than 305,000 workers in the auto industry sector classified as motor vehicles and equipment (SIC 371) have lost their jobs and another 720,000 jobs have been lost by suppliers to the auto industry. These lost jobs are in the primary metals, car dealerships, automatic stamping, tires and inner tubes, as well as various other industrial groups that supply the auto industry.

The impact extends to all regions of the country and the total community in which affected workers once worked. Many are no longer taxpayers, but now are unemployment compensation beneficiaries and soon welfare recipients. This loss is a massive national toll as a financial burden on society, a tax-loss to the community, a loss of our industrial base, our defense-related capability and a rising trade deficit.

At the AFL-CIO Convention in New York in November 1981, the delegates adopted a policy resolution on International Trade and Investment which stated in pertinent part:

"Domestic content laws should be enacted to assure continued production of such products as autos. A U.S. production requirement is needed to preserve employment and skills and shore up the nation's sagging industrial base. Local content requirements in autos should be tied to sales volume and should be phased in beginning with the 1982 model year."

More recently the AFL-CIO Executive Council in August of 1982 called upon Congress to:

"Enact domestic content requirement legislation to limit job-destroying imports and to restore jobs in auto and auto-related industries."

S. 2300 provides a strong response to the critical need for domestic content laws to reestablish a viable U.S. automobile industry. It is based on the concept that multinational auto companies—U.S., French, German or Japanese—should provide the United States with jobs and production—not just assembly jobs—when they enjoy the advantages of the U.S. market. The proposal simply extends current U.S. domestic content requirement laws so that passenger cars and light trucks will be required to have a gradually rising percentage standard of American-produced parts.

Domestic content is not a new idea. For example, the U.S. has had domestic content provisions in the Energy Policy and Conservation Act of 1975 (a 75 percent domestic requirement for an automobile to qualify as domestically manufactured for purposes of determining average fuel economy).

Many of the countries such as Australia, Brazil, Mexico, South Korea and Spain have domestic content requirements. The specter of foreign retaliation is often raised as an objection to U.S. auto content legislation. But there has been no retaliation in the cases of the above listed countries.

As the Japanese currently are targeting the aerospace industry for future development, All Nippon Airway in its purchase orders for new planes is reportedly requesting a certain percentage of the content be of Japanese origin. The U.S. has not retaliated against this action.

Other nations have combinations of domestic content laws or other policies, such as high tariffs, quotas and/or embargoes, subsidies, and requirements for auto exports—plus in some cases, export requirements for parts.

Most countries have stiffer requirements for assuring auto production in their countries in law and/or practices than the U.S. The attached tables (Appendix I) submitted to the International Trade Commission by the United Auto Workers gives a sense of the extent of this practice. What the tables do not show, however, is that there has also been an effective de facto content requirements in Western Europe that creates an enormous advantage for producing there. Between members of the European Community and members of the European Free Trade Association—that is in most Western Europe—there has been a duty-free transfer privilege for production within their borders, but a tariff on parts and cars from the outside—tariffs that are generally higher than those of the United States. The effect encourages production in Europe. Many European countries also have quotas in "gentlemen's" agreements or other regulations to keep out a flood of car imports—particularly in France and Italy, and more recently in Great Britain.

Relatively speaking, therefore, the United States has virtually no tariff and nontariff barriers on autos and parts in comparison to those of other countries. The Japanese, for example, have no tariff, but they have a high commodity tax (which they raised in April 1981), a national distribution system that stands in the way of imports, and an inspection system that means that every car entering Japan may be individually inspected. In 1981 and 1982, a plummeting yen meant that the unfair advantage of the Japanese was increased, as the yen has declined by 20 percent since January 1981.

The result of Japanese practices is that Japanese cars can sell for less in the U.S. than they do in Japan, whereas U.S. cars sell for two to three times their U.S. selling price in Japan.

The U.S. has a 2.8 percent tariff and the rest of the world has tariffs from 7.6 percent to 205 percent (see Appendix II). Under these circumstances, the incentive to produce abroad and flood the U.S. market is escalating.

Meantime, U.S. and foreign auto companies have become multinationals. They will continue to foreign source their parts. S. 2300 does not stop all foreign sourcing. But the bill does limit the percentage of content that a company can foreign source to stem the outrush of parts production from the United States.

Foreign sourcing already accounts for a great deal of U.S. auto manufacturers' purchases. The attached list of major components sourced between 1977 and 1981 (Appendix III) demonstrates how serious this problem has become. Without S. 2300, the bleak future for America's industry will have to have more and more parts production moved abroad and to make the U.S. a mere assembler of foreign-made parts. Unless that trend is reversed, drastic reduction in U.S. auto jobs and production will continue and ultimately cost the nation its security as well as its technological future.

The provisions of the bill are designed to find a middle way—to assure a viable industry here, without stopping all multinational integration.

The content formula, therefore, is based on costs of the U.S. automotive production for which a company is responsible as a percent of U.S. automotive sales. We believe the bill should require all companies with annual sales of over 100,000 vehicles to locate some production in the United States, hire U.S. workers and buy auto parts here. "Content" means the total U.S. cost of a manufacturing company's production at wholesale factory prices to dealers for all cars and light trucks sold in a year. Both parts made by the company and parts purchased from other U.S. producers would be given credit as domestic value. Automotive exports count, along with the production sold in the U.S. U.S. imports can continue.

The bill sets a ratio of content, depending upon the level of cars the company sells in the U.S. It would be phased in gradually. By model year 1986, if a multinational company sells 100,001 vehicles in the U.S., it would have to produce or buy domestic production worth 10 percent of its auto sales here; 150,000, 15 percent; 200,000, 20 percent; and 500,000, 50 percent, and 900,000, 90 percent. The bill should provide that starting at sales above 100,000 a company divides its sales by 10,000, and that number is the resultant domestic content requirement up to a maximum of 90 percent.

The bill also instructs the Secretary of Transportation to issue necessary regulations, monitor compliance and issue annual reports on local content. Penalties for failing to reach the content level would lead to a curb in allowable imports in the following year.

The American auto worker is just as productive as the Japanese auto worker, according to a recent study of the Japanese Productivity Council. Some adversaries of this bill argue that this bill would be inflationary. But they ignore the inflationary thrust that would exist if we were totally dependent upon foreign producers, nor do they deal with the 20 percent decline in the value of the yen during the last two years, resulting from high U.S. interest rates.

The result of passage of this bill would be that the changing technology of the auto industry could be absorbed. The rapidly escalating outrush of production would not lead to a complete destruction of this important American industry. Instead, S. 2300 creates an opportunity for manufacturers from all nations to sell and produce cars here, employing U.S. labor and providing a multiplier effect on production and jobs in services in this country.

This will benefit U.S. consumers who wish to continue to choose among a variety of cars, U.S. workers whose jobs consist of parts and assembly operations for motor vehicles, and for U.S. business which has a major stake in participating in the expansion, rather than the decimation of the American auto industry.

For these reasons, the AFL-CIO endorses S. 2300, with these suggested amendments, a fair bill designed to take automobiles and related parts off the list of endangered U.S. industries. Its passage is bound to have a positive ripple effect on the U.S. economy.

Attachments.[1]

APPENDIX II

FOREIGN SOURCING

[Partial list of known 1977–81 commitments by major U.S. automobile manufacturers to purchase foreign-made major components for use in domestic nameplate vehicles]

Manufacturer, Component	Intended for—	Source	Approximate number of components	Delivery beginning
GM:				
2.8 liter 6 cyl	Cars	GM de Mexico	400,000/year	1982
2.0 liter 4 cyl with transmission.	Mini trucks	Isuzu (Japan)	100,000/year	1981
1.8 liter diesel 4 cyl	Chevette	Isuzu	Small numbers	1981
1.3 diesel 4 cyl	S-Cars	Isuzu	NA	1983
1.8 liter 4 cyl	J-Cars	GM de Brazil	250,000/year	1979
THM 180 automatic transmission.	Chevette	GM Strasburg (France)	250,000/year	1979
Manual transmissions	J–Cars	Isuzu	250,000	1981
Ford:				
2.2 liter 4 cyl	Cars	Ford-Mexico	400,000/year	1983
Diesel	Cars	Toyo Kogyo (Japan)	150,000/year	1983
2.0 liter 4 cyl	Mini trucks	Toyo Kogyo	100,000/year	1982
2.3 liter 4 cyl	Cars	Ford de Brazil	50,000/year	1979
Diesel 6 cyl	Cars	BMW/Steyr (West Ger., Austria).	190,000/year	1983
Diesel 4 cyl	Cars		NA	1985
Manual transaxles	Front Drive Cars	Toyo Kogyo	100,000/year	1980
Aluminum cylinder heads	1.6 liter 4 cyl	Europe, Mexico	NA	1980
Accessory motors	Cars, trucks	Ford-Singapore	NA	1984
Electronic engine control devices.	Cars	Tashiba	100,000+/year	1978
Ball Joints	Cars	Musashi Seimibu	1,000,000/year	1980
Chrysler:				
6 and 8 cyl engines	Cars	Chrysler de Mexico	100,000/year	1982
2.2 liter 4 cyl	K-body	Chrysler de Mexico	270,000/year	1981
2.6 liter 4 cyl	K-body	Mitsubishi (Japan)	1 million	1981
1.7 liter 4 cyl	Omni/Horizon	Volkswagen (W. Germ.)	1.2 million	1978
Manual transmissions	Omni/Horizon	Volkswagen	500,000	1978
1.6 liter	L-body	Talbot (Peugeot)	400,000 total	1982
2.0 liter diesel and 6 cyl	K-body	Peugeot (France)	100,000/year	1982
1.4 liter 4 cyl	A-body (Omni replacement).	Mitsubishi	300,000/year	1984
4 cyl engines	Cars	Peugeot	NA	1985
Aluminum cylinder heads	2.2 liter 4 cyl	Fiat (Italy)	NA	1984
AMC: Car components and power train.	AMC-Renault	Renault in France and Mexico.	300,000/year	1982

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[1] Appendix I was submitted earlier for the hearing record, see p. 20.

FOREIGN SOURCING—Continued

[Partial list of known 1977–81 commitments by major U.S. automobile manufacturers to purchase foreign-made major components for use in domestic nameplate vehicles]

Manufacturer, Component	Intended for—	Source	Approximate number of components	Delivery beginning
VWA:				
Radiators, stampings	Rabbit	VW de Mexico	250,000/year	1979
4 cyl diesel and gas engines	Cars	VW de Mexico	300,000 + /year	1982

NA Figure not available.

Sources: Automotive News, Ward's Engine Update, Ward's Automotive Reports, American Metal Market, Detroit Free Press, Detroit News, Japan Economic Journal, and Journal of Commerce.

APPENDIX III

OTHERS ACT TO SAVE THEIR AUTO INDUSTRIES: THE U.S. DEBATES AS OURS DECLINES

[Summary of automobile trade restrictions[1]]

	Local content requirements	Non-tariff import restrictions[2]	Export requirements	Current auto tariff [3] (percent)
Australia	Yes	Yes	No	35–57
Austria	No	Yes	No	20.0
Belgium	No	Yes	No	10.8
Brazil	Yes	Yes	Yes	185–205
Canada[4]	No	No	No	14.2
Denmark	No	No	No	10.8
France[4]	No	Yes	No	10.8
Germany[4]	No	No	No	10.8
Italy[4]	No	Yes	No	10.8
Japan	No	No	No	[5] 0
Mexico	Yes	Yes	Yes	NA
Netherlands[4]	No	No	No	10.8
New Zealand	No	Yes	No	55.0
Norway	No	Yes	No	7.6
South Korea	Yes	Yes	Yes	80.0
Spain	Yes	Yes	No	68.0
Sweden	No	No	No	9.0
Switzerland	No	No	No	10.0
United Kingdom[4]	No	Yes	No	10.8
United States[4]	No	No	No	2.8

[1] The measures cited in this chart are for new cars. Trade restrictions on used cars are not reflected.

[2] Import restrictions apply to non-tariff measures maintained by a country which deals solely with imports. Tax measures which apply to both imports and domestically produced products are not included.

[3] Most European countries impose hefty value-added taxes (VATs) that make the effective tariff rate higher than shown.

[4] These countries have quantitative restrictions on imports from Japan.

[5] While no tariff is charged, Japan erects a complicated set of hurdles: peculiar product standards, vehicle by vehicle testing of imports, etc., which effectively double the price of imported cars.

NA—Not applicable; imports prohibited except by special arrangement.

AMERICAN FEDERATION OF LABOR
AND CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., January 14, 1983.

Hon. BOB PACKWOOD,
Chairman, Committee on Commerce, Science, and Transportation,
Dirksen Senate Office Building, Washington, D.C.

DEAR SENATOR PACKWOOD: This is in response to your letter dated December 27, 1982 enclosing a list of questions for me to answer in writing for your hearing record on Automobile Domestic Content legislation. For your convenience, each question with the accompanying AFL-CIO response follows:

(1) Please compare the three major versions of automobile domestic content legislation that surfaced during the 97th Congress: S. 2300; H.R. 5133 as reported by the House Committee on Energy and Commerce; and H.R. 5133 as passed by the House on December 15, 1982. Do you favor all three versions? In particular, please comment on the action by the House to amend H.R. 5133 to provide that "nothing in this Act shall be deemed to supersede the terms and conditions of any treaty, inter-

national convention or agreement on tariffs and trade which is in existence on the date of enactment of this act and to which the United States is a party."

The intended effect of the three major versions of the domestic content legislation is essentially the same: to promote an efficient U.S. auto industry and the many U.S. supporting industries related to auto production. They are based on the concept that multinational auto companies should provide the U.S. with jobs and production—not just assembly jobs—when they enjoy the advantage of the U.S. market. H.R. 5133 as reported by the House Energy and Commerce Committee provides a more gradual scale for compliance for manufacturers than S. 2300 or the original version of H.R. 5133. H.R. 5133, as passed by the House, adds some versions acceptable because it believes that the time has come for the U.S. Congress to pass a law to assure the existence of an advanced, technologically competent U.S. automobile industry, including U.S. parts production with advanced processes and products supplying that industry. We believe that the statute, in any of the three versions, will encourage U.S. and foreign companies who want a significant share of the U.S. market to assure the maintenance of assembly and parts-supplying companies that go with a healthy U.S. industry.

The action by the House to amend H.R. 5133 has no significant effect because the bill does not contravene treaties or agreements. However, the bill would be better without the amendment, because the issue of GATT compatability should be resolved in the GATT where all the countries with content laws and policies would have to reconcile the provisions of their laws, if they intend to object to that of the U.S. At least 30 countries have local content laws on the books and are unchallenged.

(2) If Japan lifted all discriminatory barriers to sales of U.S. cars in Japan, would the U.S. share of Japan sales increase significantly? Would you still favor domestic content legislation?

If Japan lifted all discriminatory barriers to sales of U.S. cars in Japan, the U.S. share of Japanese sales would increase significantly. There is no question that the U.S. and other foreign exports of cars are kept out of Japan by trade barriers. But the AFL–CIO would still urge content legislation even if all such barriers were removed. We do not view S. 2300 as an anti-Japanese bill, but as a pro-American industry and labor bill.

(3) Do you have any estimate of the impact of domestic content legislation on employment at U.S. ports and foreign car dealerships and assembly plants located in the United States? What is your reaction to the Department of Commerce estimate that 118,000 to 168,000 U.S. jobs could be lost at these facilities? What is your reaction to the Department of Transportation estimate that up to 11,600 direct jobs would be lost and up to 81,200 indirect jobs would be in jeopardy at 14 U.S. ports?

There is no reliable estimate of the impact of domestic content legislation on employment at U.S. ports and foreign car dealerships and assembly plants located in the United States. The probability is that jobs at the ports and within dealerships and at assembly plants would be increased. At ports, the displacement that is assumed for automobiles would be absorbed by greater imports and exports of other products in a healthier economic exchange. At dealerships the demise of more than 1,600 U.S. auto dealerships from imports in 1980–1981 has meant that many dealerships now include sales of both foreign and domestic cars. Thus, there is no reason to think that there would be an employment impact other than a positive one. A foreign car dealership which sells both domestic and foreign cars would not lose jobs. A Toyota dealer would not sell fewer Toyotas made in the U.S.A. than Toyotas imported from Japan. (Toyota which accounts for about one-fourth of the imports has made an estimate of employment effects in all distribution. This estimate shows that the distribution at ports involves about 1,800 workers. And the Toyota calculation does not take into account the increases in employment which will result.)

As for the Department of Commerce estimate that 118,000 to 168,000 U.S. jobs could be lost, we have been given no information to support such figures. Nor have we been given information about the DOT estimate about 14 U.S. ports. However, there is no reason to accept their assumptions of negative effects. To accept them is to assume that jobs created in the United States will have a negative effect on U.S. trade and that loss of jobs and industries in the United States through more imports will benefit U.S. trade. We do not believe that. Nor do we believe that companies which produce here and assemble here will close up shop and abandon this market. The Japanese, U.S. and other auto companies have not shut up shop in countries which have adopted content requirements. Instead, they have expanded their operations in many of those countries.

(4) Is automobile domestic content legislation such as S. 2300 and H.R. 5133 a violation of the General Agreements on Tariffs and Trade?

There is no indication that the content legislation is a violation of the General Agreement on Tariffs and Trade. Neither, the U.S. nor any other country has challenged the law of any of the 31 countries or the practices in other countries which effectively have content policies. The General Agreement on Tariffs and Trade is not a statute which can be "violated" in the same way a U.S. law can be violated. It is a very general set of principles, whose meaning is subject to a variety of interpretations. If the United States is singled out as violative of the GATT, then clearly the GATT is not a general agreement, but an anti-U.S. agreement. We do not believe that will be the result. We continue to support the GATT.

(5) What have been the causes of the current slump in the domestic auto industry? What among these are the principal causes? Is automobile imports one of the principal causes of the decline in U.S. car sales by domestic manufacturers from 9.3 million units in 1978 to 6.2 million units in 1982? Which of the principal causes of the auto slump are addressed by the proposed domestic content legislation?

The causes of the current slump in the domestic auto industry are many: rising imports, outflows of investment to produce in foreign markets, tight money and high interest rates, general economic recession, and rising unemployment. Auto imports are one of the principal causes of the decline in sales. The AFL-CIO believes that the domestic content legislation addresses all of those causes, except for tight money and high interest rates.

Sincerely,

STEPHEN KOPLAN,
Legislative Representative.

STATEMENT OF THOMAS W. GLEASON, PRESIDENT, INTERNATIONAL LONGSHOREMEN'S ASSOCIATION, AFL-CIO

Gentlemen, my name is Thomas W. Gleason. I am the International President of the International Longshoremen's Association, AFL-CIO. The ILA represents over 100,000 longshoremen and employees in other occupations affecting—and affected by—domestic and international trade.

The ILA can appreciate the motives and responses of S. 2300, The Fair Practices In Automotive Products Act. It is an attempt to seek relief for an important home industry that is facing rapidly increasing competition, in particular, from the Japanese auto industry.

I submit that the solution that that industry seeks, through passage of the bill before you, is not the appropriate or most effective answer to a serious problem. It attempts to handle the situation on an ad hoc basis, without ample consideration of the impact on our country and its trade relations as a whole and the implications for other American industires as well.

The longshore industry is a case in point. Over the past two decades, the results of automation and the adverse actions of federal agencies have eliminated many millions of longshoreman-hours and thousands of jobs on the waterfront. In their wake, all sorts of additional jobs in backup industries such as trucking, warehousing, insurance, processing and so on which depend for their very existence on shorefront activities, at a ratio of about five backup positions for every longshoreman, have disappeared.

If the intended effects of S. 2300 actually come to pass, then we foresee extensive loss of international cargo which our members handle, to be followed by raised tariffs, cuts in foreign shipments of American products, and other retaliatory measures. These will futher erode whatever work remains in the already hard-pressed longshore and shipping industries.

This piece of legislation, though it seems narrowly-addressed and confined to a single industry, will be used as a precedent to open the door to similar bills yet to be sponsored on behalf of industries that also face trouble because of over-reaching and inequitable trade practices. It will not be long before we conduct our international trade by congressional statutes written in stone, rather than through flexible negotiations and the selective uses of economic power. This traditionally and for pragmatic reasons has been the province of the Executive branch of government, which conducts our day-to-day foreign relations.

In the case of the Japanese, the measure before you will aggravate and harden the situation, rather than seek changes thru persuasion and appeals to self-interest. We all know that trade with Japan has become too much of a one-way proposition. It hasn't only been limited to automobiles; it encompasses full or partial bans on a whole range of American products that are not permitted to meet the existing and potential demands of the Japanese consumer market, so that Japan's balance of trade—but not ours—artifically remains favorable.

Japan, like other governments who perform the same trick, must be made to understand we will not deal piece-meal with them like they do with us. American industry and the American economy is an integrated one. Whether it be autos, or farm products, or steel, or computers or services, there are ripple effects elsewhere within our system. The example that I gave you of the potential effects of this bill on our own industry can be multiplied a hundred or a thousand fold when one considers the actions of—and counteractions to—Japanese trade policies. The time for action is upon us!

What we need, then, is a broad—not a limited—approach to the underlying problem. It really has to do with Japanese and other foreign attitudes that overprotect and subsidize their constituents, while seeing American industry and consumers as ripe for the picking. That is the type of "foreign aid" you don't—possibly can't—legislate, unless we're going to go back to those days when we were an "island republic". The President, through his Trade Representative, is the appropriate party to drive the message home to our trading partners: that protection and invasion are not the answer; rather, responsible, even-handed trade policies are the only way to keep all of our economies in balance if the Free World is to stick together and succeed.

I therefore urge you table this bill, not because it is ill meant but because it is ill conceived. It is a fragmentary approach that will complicate our own responses, hamstring out negotiators and create far more dust than it can settle.

This does not mean that the basic problem is to be swept under the rug. To the very contrary! It is precisely because the proponents and supporters of this bill have felt the need to go to such great lengths to remedy what they and our own members see as a festering and growing adversity, that the Administration must devote more strenuous efforts and determination to rectify it through the means at their disposal.

We in the ILA intend to do whatever may be required of us to back up the Administration's posture in bringing these matters to a head. It must be done in the context of an overall reconciliation of conflicting national and international policies and interests.

As Ambassador Brock commented in his statement regarding the corresponding House bill:

"[The Fair Practices In Automotive Products Act] is another manifestation of an affliction that Americans want left behind—the easy answer. They are tired of "quick solutions", that invariably become non-solutions resulting from simplistic analysis of problems. Increased import share is not the problem, but rather a symptom of a decline in U.S. international competitiveness. The answer to this real problem is that management, labor, and the Government must take those actions, separately and together, that improve productivity, that reduce costs, that encourage economic investment, and that put us on a level playing field with respect to our major trading partners.

"In contrast, the passage of [The Fair Practices In Automotive Products Act] creates new problems. It would be viewed as both a renunciation of reciprocal trade liberalization policy, currently being pursued by this Administration, and a revocation of free trade policy that has been supported by all Administrations and Congresses for over 30 years."

In a sense, all American labor and industry today is in the same vulnerable boat. We have to stay afloat together, not separately and certainly not by going our own ways. We must all pull together in supporting our trade bargainers. That's how the job will get done the right way, not, as this bill will tend to do, the wrong way.

Thank you for inviting me to present our position on this important matter.

INTERNATIONAL LONGSHOREMEN'S ASSOCIATION,
AFL-CIO,
New York, N.Y., January 28, 1983.

Hon. BOB PACKWOOD,
Chairman, Committee on Commerce, Science, and Transportation,
U.S. Senate, Washington, D.C.

DEAR SENATOR PACKWOOD: I am responding to your letter of December 27, 1982 enclosing a list of questions. I will attempt to respond to each of them in the order posed:

Question 1. Please compare the three major versions of automobile domestic content legislation that surfaced during the 97th Congress: S. 2300; H.R. 5133 as reported by the House Committee on energy and Commerce; and H.R. 5133 as passed by the House on December 15, 1982. Do you oppose all three versions? In particular, please comment on the action by the House to amend H.R. 5133 to provide that "nothing in this Act shall be deemed to supersede the terms and conditions of any treaty, international convention or agreement on tariffs and trade which is in existence on the date of enactment of this Act and to which the United States is a party."

Answer 1. It is the ILA's position that none of the various versions of the domestic content legislation that surfaced during the 97th Congress is preferable over the others. In my prepared statement to Congress, I noted that the legislation per se is ill-conceived because it treats the symptoms and not the causes and because it will only shift the burdens of unemployment and underemployment from one particular industry to other equally important and substantial sectors of our national economy.

I can appreciate the action by the House to amend H.R. 5133 by what is known as the "Fenwick Amendment." This appendage could be interpreted as a "gutting" of the Act and its original purpose. However, it still leaves the door open for litigation over whether or not the terms of GATT or other international agreements are violated in any particular instance.

There is another aspect of even greater significance. The Act, whether potent or impotent, still will stand as a statement by the Congress undermining the basic concept of free trade—a principle which our country has encouraged and promoted since the Second World War and which must not be abandoned just because at the moment the shoe might be on the other foot. Our credibility and reliability are just as much at stake in this area of our international relations as in others. We must find solutions that are consistent and innovative—not contradictory and troublesome.

Question 2. At this time, how extensive is unemployment and underemployment among your members?

Answer 2. Both unemployment and underemployment are quite extensive among the ILA's members. For example: over the past 15 years in the Port of New York alone, we have seen the ranks of the longshoremen reduced from 27,500 men to some 9,000 longshoremen at present, of whom less than 6,000 work on a regular basis. As the process of containerization rapidly develops in other ports as well, more and more of our members do and will qualify for and receive guaranteed annual income payments which reflect their underemployment. This does not take into account numerous other longshoremen who do not qualify for GAI benefits but who no longer can find work in the industry to entitle them to this benefit. The impact of the current recession, with reduced trade and cargo as well, and the introduction of larger and more efficient vessels have further depleted our members' ranks and threaten to continue this downward regression. We cannot, on such short notice, give you exact figures. Nonetheless, this steady trend is unmistakable and ominous.

Question 3. What is your reaction the Department of Transportation's estimate that up to 11,600 direct jobs would be lost and up to 81,200 indirect jobs would be in jeopardy at 14 U.S. ports if domestic content legislation such as S. 2300 or H.R. 5133 were enacted, just through decreased car import activity?

Answer 3. The Department of Transportation estimate that up to 11,600 direct jobs would be lost and up to 81,200 indirect jobs will be in jeopardy through decreased car import activity alone does not appear to be far from the mark. Just one of our New Jersey locals reports that at least 500 of its members are engaged in the storage of cars and in preparations and deliveries to car dealerships in that area. This does not account for the great numbers of our members engaged in off-loading, checking and other activities at pierside at ports on the Great Lakes, the Eastern and South Atlantic Coasts, the Gulf Coasts and in Puerto Rico. Of course, one must also take into account all of those West Coast longshoremen whose jobs would be affected. The five-to-one ratio between back-up jobs and longshore ones would suffer from the same ramifications of domestic content legislation.

Question 4. What would be the potential job losses at U.S. ports if foreign countries retaliated against U.S. exports?

Answer 4. Reasonably assuming that foreign countries would retaliate against U.S. exports in the event that the Act as envisioned by its sponsors should pass and become law, then the potential job losses for U.S. ports are immense. After all, international trade is a two-way affair. Excepting grain products and comparable items that other countries deem necessary or expendient to their economic and political survival, all other optional-type products can be expected to be subject to the self-same domestic content legislation or other trade and tariff barriers that countries in the targeted industry might choose at random. Certain ports would be affected more than others, depending on the commodities that they handle. Conceivably, retaliation might also take the form of limiting exports to the United States of those items that we need or want, to which our members' jobs are equally vulnerable, because over 90% of international trade moves by sea.

Question 5. Why do you depart from the AFL-CIO in your position on domestic content legislation?

Answer 5. The reason for the ILA's departure from the AFL-CIO in its position on the domestic content legislation was set forth at length in my prepared statement. More specifically, we maintain that the answers to the problems and malaise in one industry employing members of one or more AFL-CIO unions, should not be alleviated at the expense of another affiliate that is directly affected because of well-established patterns of work flow and job opportunities. Our members have suffered severe losses of jobs and work opportunities over longer periods of time than those in other industries, but the ILA has never asked anyone else to share or make up for its problems and losses. Indeed, we are still engaged in extensive litigation just to preserve work that was wrongfully taken away from our members over the past two decades. This is in addition to the work lost through automation and economic upheaval.

It is therefore unfair for our members to have to undertake further burdens and to risk whatever remains of their jobs because of what has happened over just the past few years in another major industry, during a period of overall business decline that has affected everyone. As I said before, this is a time for everyone to pull together, not apart.

I hope that the foregoing will be satisfactory for your present needs. However, we will be glad to attempt to respond to any further request you may have.

Sincerely yours,

THOMAS W. GLEASON,
International President.

The CHAIRMAN. Again, accept my apologies, but there is no point in asking you all to wait in the hopes that you might get a chance to testify. Thank you.

[Whereupon, at 11:44 a.m., the committee was adjourned, to reconvene at the call of the Chair.]

FAIR PRACTICES IN AUTOMOTIVE PRODUCTS ACT

FRIDAY, DECEMBER 17, 1982

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, D.C.

The committee met, pursuant to notice, at 8:55 a.m., in room 235, Russell Senate Office Building, Hon. Bob Packwood (chairman of the committee) presiding.

OPENING STATEMENT BY THE CHAIRMAN

The **CHAIRMAN**. Let me call this meeting to order, and put a question to the witnesses who are here to think over while I go vote. After I vote, I will come back and start with Congressman Gibbons. I would like you who are here to consider the possibility that I may have to cancel these hearings. I don't mind going back and forth between this hearing room and the Senate floor, but you may spend the better part of the day waiting while we are voting. We are on the continuing resolution. There are about 35 amendments to go, most of which are going to require rollcall votes.

So why don't you talk about this among yourselves. We can put all of your statements in the record, or I can try to hear the witnesses. I will hear those from out-of-town, very clearly, because they have come a long way. Those of you who are in Washington, talk about it among yourselves.

Sam, I will be back in 15 minutes to get your testimony.

[Recess.]

The **CHAIRMAN**. The committee will come to order.

With a little luck, it appears we may get a little window right now to get some of our testimony in.

Our first witness today is the Honorable Sam Gibbons, Congressman from Florida, with whom I have shared usually happy, but sometimes lengthy, moments on some of those conferences between Finance and Ways and Means.

I assume, if we pass the gas tax, Sam, you and I will be together again pretty soon.

Mr. **GIBBONS**. We have a number of bills over here, Senator, that I wish you would get out, that we may have conferences on, and the gas tax is certainly an important one.

The **CHAIRMAN**. We are delighted to have you with us this morning.

Mr. **GIBBONS**. Thank you.

STATEMENT OF HON. SAM GIBBONS, U.S. REPRESENTATIVE FROM FLORIDA

Mr. GIBBONS. Senator Packwood, I have a statement for the record, and I would ask that it be placed in the record.

The CHAIRMAN. Without objection.

Mr. GIBBONS. I want to try to summarize what I said in that statement.

This bill is bad for America. It is bad economics. It is bad politics, and it is bad trade policy.

It is bad economics because all of the economists, when they analyze it, say that the impact of it would be that it would transfer some jobs in America from ones that are now competitive and efficient to a least competitive sector. America would end up poorer. Inflation would be higher. Jobs would be lost in the total economy. The American consumers would be denied a legitimate choice of product.

Now here is why I say it is bad politics. It is bad politics because this bill, and this is no reflection upon any of its sponsors, has got to be one of the most arrogant pieces of legislation that I have ever seen.

It says to the American public, after they have paid their taxes, that they can't take the money they have left and spend it on a product that they want to buy unless it meets some artificial restraints that Congress has placed upon their ability to spend their own hard-earned dollars. That is not good politics in America, and it is not good government.

If this were a deleterious product, one that was harmful to the health, then I could see some reason for doing that, but these are competitive products generally accepted in this country and around the world. It says, even though the product may be made by an American manufacturer, it has got to have certain components.

So, in effect, it is replacing judgment of engineers and scientists, and it is saying, you must have what the politicians say you must have in your product. So it is bad in that regard.

Then, it is bad trade policy. In its original form, and in the form that it was in until the very last moments in the House, it unilaterally abrogated our voluntary commitments that we had entered into with other people around the world. Fortunately, Mrs. Fenwick's amendment saved us from being Uncle Welcher.

It is not the solution to the problem. It will not produce jobs. It will make America poor. It will be a vast intrusion of the political apparatus into the private apparatus of this country, one that is really unprecedented when you stop to think about it.

Now, why is it bad economic policy? Ms. Rivlin's testimony will go into that in detail, and other witnesses, I am sure, that you are going to have, so I will not spend a lot of time on it.

It is bad trade policy because it says that one segment of the American economy will be preferred, that segment just happens to be one that has perhaps the second highest wage level of all Americans in industry. The wage level in the auto industry is considerably higher than in the average American industrial job.

It costs about $23 an hour to hire an industrial worker in the automobile industry, whereas the cost of hiring an average American worker is less than half of that in other industrial jobs throughout the United States.

This industry is in a serious transition. It is in a serious transition because it has in the past been characterized by being a high paid industry, with low labor skills, and essentially labor-intensive, and that is no longer the current technique of manufacturing automobiles. The industry here understands it.

The industry itself opposes this legislation, as you will find if you call the industrial heads of Ford, General Motors, Chrysler, and all of the foreign manufacturers who have moved plants here.

The foreign manufacturers will tell you that they would not have come if they had known this little present was on the table for them. It will make it impossible for them to make greater investment in this country, and it may perhaps cause them to close their plants. In fact, one testified before us that it would cause them to close their plant.

The heads of Ford and General Motors both said that their essential problem in competition with the Japanese was the dollar/yen relationship. The yen, if it was valued at somewhere between 180 to 200 to the dollar would make the American car price competitive with the Japanese car.

You perhaps know that the yen, as recently as in October, was selling for about 270 to the dollar, rather than 180 to the dollar. The yen has appreciated against the dollar some since that time, but it has not gone so far as to aline itself in a way that it can aline itself to make the American car competitive with the Japanese car.

For these reasons, and for a host of others, this is a terrible piece of legislation. I characterized it on the House floor as trying to put a band-aid on a rattlesnake, it does not make good sense, and it is disastrous in its results. It is one that addresses a very complex subject in a very simplistic manner.

Everyone who has analyzed it, and I am talking about the disinterested analysts, the ones who are not directly involved in the benefits that are supposed to flow from this bill, says that it just will not work. The administrative nightmare that it will cause is even more horrible.

Witnesses testified for the Department of Transportation, and perhaps they are on your witness list this morning, that they would have to deal with 40,000 suppliers on a current time basis, trying to trace who these suppliers bought their materials from, and their subcomponents from, and who they sold them to. Some of them sell them to all automobile companies.

It would be impossible, because it would then have to be coordinated with the currency fluctuation throughout the world. To do all of that would amount to a paperwork jungle that couldn't be done on a current time basis, which are the facts and figures that have to be known in order to set the quotas on parts.

So, it is an administrative nightmare, highly expensive to administer, impossible perhaps to administer fairly. It will not solve the problem of the American automobile industry. It will deprive the American consumer of anything like fairplay. And, it will make America poorer.

On that, Senator, I ought to conclude.

The CHAIRMAN. Sam, some witnesses have made the argument that America cannot be a great country if we lose our hard goods industry, steel and automobiles. They contend that without some protection we are going to lose them and that we can no longer compete.

You made some references to wages in the auto industry being high. The wages in the steel industry are also quite high.

Mr. GIBBONS. They are higher.

The CHAIRMAN. They are the highest, as I recall.

Mr. GIBBONS. Yes; they are the highest in the world.

The CHAIRMAN. What is your assessment, assuming the economy gets reasonably well at some stage, hopefully, as to whether those industries can compete in a world market.

Mr. GIBBONS. The leaders of those industries believe they can compete.

The steel industry has been beset by a number of things. You pointed out that their wages are very high. The cost of hiring a person to work in a steel plant is about 70 percent higher than the average American industrial person doing the same type of work. The automobile is just a little bit less than that.

That is not the only trouble. The steel industry has had some trouble from the outside, and the steel industry filed a case yesterday under the Trade Act alleging a conspiracy between the Europeans and the Japanese. If that is true, then we ought to move directly against the Europeans and the Japanese and apply sanctions against them.

I hope that the President's representatives in the International Trade Commission, and also the U.S. Trade Representative's Office will vigorously move forward on that investigation. It alleges a conspiracy between the European Community and the Japanese steel industry to divide the world markets and, in effect, enter into predatory-type practices on pricing. That is a very serious charge, in my estimation.

However, the steel industry has also sought to diversify, as you know. Perhaps you are not aware, but they have bought some of the finest real estate in Florida. It is not very well connected with the steel industry, but it is probably going to be one of the most profitable sectors of their business. Also, they have now gone into the oil business, at least one of them has.

They have had their problems up and down, but the leaders in the steel industry tell me that all they want is a fair shake, and certainly they are entitled to that. We will do all we can to make sure that they get a fair shake, that they can survive, and we will survive in that atmosphere.

The same for the leaders in the automobile industry, they can do, and they will do, it. They are in a terrible period of transition. There are adequate remedies in our existing law. On a national security basis, the President has the power to impose some very strict restrictions upon imports—surcharges on imports, orderly marketing agreements, quotas, tariffs, and all of those things, should our national security be jeopardized.

There is no definition for national security in the statute, and it is broadly left to the discretion of the Executive. There have been no cases since some ballbearing cases and, I think, some watch cases back in the late sixties or early seventies on that basis. I think that in one of those cases, the ballbearing industry, there were some security problems. These are remedies that are currently available.

Senator, you hit right on the point. Under current laws, all American industry is entitled to import relief protection if it is being seriously injured or in danger of serious injury.

The automobile industry and its unions went into the quasi-judicial proceedings that we have under the trade laws alleging that they were being injured. After a long and thorough hearing, the Commission voted that they were not being injured by the trade matters, and that it was more of an internal matter—the high price of money, other inefficiencies in the automobile industry, and things of that sort.

So they, in a sense, had their day in court. They lost, and now some of them would like to change the law. They just don't want to live by the same law that 240 million Americans live under.

The CHAIRMAN. Sam, I have been here long enough to know that this is not the first plea to Congress based upon that assumption.

Mr. GIBBONS. No; and as I remember your record, you have an outstanding record in turning down those special pleas.

The CHAIRMAN. Sam, I have no other questions. I appreciate very much your coming over. I apologize for the delay.

Mr. GIBBONS. I realize that you have spent a very strenuous day of a very strenuous life anyway. Thank you very much.

The CHAIRMAN. I have a feeling that I will be seeing you later this weekend in conference.

Mr. GIBBONS. Fine. And, if you have more hearings on this bill next year, I will be glad to come back and elucidate further.

Thank you, sir.

[The statement follows:]

STATEMENT OF HON. SAM M. GIBBONS, U.S. REPRESENTATIVE FROM FLORIDA

Mr. Chairman, I would like to thank you for giving me the opportunity to testify this morning on S. 2300, the so-called domestic content bill. Over the last few months, I believe that I have become something of an expert on this subject.

For a 9-day period, beginning September 21 and ending October 1, the Subcommittee on Trade of the Committee and Ways and Means, which I chair, held hearings on H.R. 5133, the House version most similar to S. 2300. During the short time allotted for consideration by our Members, the Subcommittee on Trade made every effort to hold comprehensive hearings on all aspects of the bill. We heard from an extensive and distinguished list of over 50 witnesses which included leaders from all segments of our economy. Witnesses pointed out many important issues raised by the bill and expected consequences of its passage that had not be considered before.

The issues have strengthened my belief that this legislation is completely ill-advised. I will summarize what we learned about the original version of H.R. 5133, which is most similar to S. 2300, but somewhat different from the version passed by the House on Wednesday evening. I would stress, though, that while some figures differ from one version of this bill to the other, my overall assessment of both versions remains the same. This is a concept that cannot be improved.

Estimates of the economic effects that the bill would produce in the U.S. economy alone represent a good reason to oppose this legislation, although there are many. By 1990, real gross national product would be lower than otherwise forecast if S. 2300 were implemented, according to the Congressional Budget Office, and the Consumer Price Index would be higher. Net employment effects through the economy would be negative. While 70,000 auto jobs would be created by 1980, approximately 220,000 jobs would be eliminated in other sectors of our economy as a direct result of the bill. In other words, auto jobs would be created at the expense of workers in other industries.

My assessment of the direct effects of local content requirements on the U.S. automobile industry is mixed. The bill could be expected to create jobs in the auto sector. However, it is important to note that the bill would not be fully implemented until 1985, and would not have full impact on the industry until about 1990. Many of our witnesses cited this as a major problem with the bill. Anyone expecting rapid relief from high unemployment through this bill will be sorely disappointed.

By reducing imports the bill can be expected to raise prices of foreign and domestic automobiles in the United States. The Congressional Budget Office has predicted a 6 percent increase as well as a reduction in auto sales of 800,000 by 1990.

Further, there is the question of competitiveness of the domestic industry after the bill is implemented. Implications of the bill led even our own U.S. producers to oppose it. It would limit the ability of U.S. manufacturers to seek the lowest cost and most readily available sources of supply, should those supplies be foreign-produced. With restrictions on foreign manufacturers' sales and the flexibility of domestic manufacturers reduced, domestic manufacturers' costs would be raised, while the necessity of their maintaining competitiveness with foreign companies would be diminished. We, the consumers, would lose on two counts.

The bill has been portrayed as a great incentive of investment in the United States by foreign automakers. However, Volkswagen of America, American Honda Motor Company, Inc., and Nissan Motor Manufacturing Corporation U.S.A.—the very companies who have acted just as supporters of this legislation would wish and invested in the U.S.—all oppose the bill. Their comments against the bill have convinced me that this is not a measure which will encourage new investment in the United States.

Volkswagen of America (VWA) pointed out at our hearings that the bill would reduce the company's flexibility in making rational business decisions. Unforeseen events such as a weakening of the dollar vis-a-vis the deutschemark could put VWA out of compliance with the local content requirements. Further, local content requirements would make it extremely difficult for VWA to expand U.S. production capacity of new models. Initial marketing of those models aimed at building up U.S. demand to the point where economies of scale would justify local production could only be accomplished through importing. The bill would make that impossible.

American Honda Motor Company, Inc. told us that the bill would limit the company's ability to attain optimum efficiency and competitiveness. Further, foreseeable levels of domestic content in Honda's U.S.-produced cars over the next three years would not be sufficient to meet the required fleet-wide domestic content ratio.

Finally, the President of Nissan Motor Manufacturing Corporation U.S.A. was the most blunt and, I believe, the most forthright of them all. He told the Subcommittee that if this proposal had been law when Nissan was considering its investment in the U.S., he doubted that the decision to establish its Tennessee plant would have ever been made. (Nissan's project will represent an investment of $660 million before the first truck is ever produced. It has already employed thousands of construction workers earning a $100 million payroll and will ultimately employ a work force totalling 2,650.) Nissan U.S.A.'s President stated that not only would additional investment by Nissan not be the result of passing the bill, but that Nissan's project in Tennessee would be seriously jeopardized.

The positions of these three companies, in my view, very effectively discredit all attempts to characterize this legislation as an "investment bill."

In considering broader foreign policy implications of passing this legislation, I would only quote from a letter (full text attached) I received from our distinguished Ambassador to Japan, Mike Mansfield, who said of this bill: "The ties binding Japan to the U.S. could weaken significantly [if H.R. 5133/S. 2300 were passed], affecting with unpredictable consequences our political and security relationships in ways that could go far beyond Japan." This statement, I believe, speaks clearly for itself.

Of course, the adverse implications of passing domestic content legislation for U.S. trade policy and the international trading system are the ones with which I am most familiar.

First, I am concerned about the precedent that this bill would set for other industries and for use of existing U.S. trade laws. It must be clearly understood that H.R. 5133/S. 2300 is a bill that has been drafted primarily to legislate import relief for the automobile industry. It is neither an employment nor an investment bill. It is a trade bill. Instead of following the route provided by existing trade laws and seeking import relief that would be acceptable under our international obligations, supporters of the bill are seeking to circumvent all of the established process. If they are successful, I believe that a serious blow will be dealt to our existing system of trade laws. Certainly, if the bill becomes law, we can expect a whole host of other industries to follow the lead of our automobile industry. Why should other industries follow established procedures if they can receive import relief without ever having to prove that imports are a primary source of the economic problems they face or that they are being injured by imports?

Second in the trade area, I am, of course, concerned about the type of import relief being sought-minimum local content requirements. Clearly, they directly violate the General Agreement on Tariffs and Trade (GATT). As a result, the United States could be asked to compensate other countries for negating trade concessions in this area. If the U.S. did not, or could not, offer compensation, other countries could be allowed under GATT rules to place restrictions on U.S. exports. Retaliatory trade restrictions would not have to be limited to coverage of U.S. automobile exports. In fact, likely targets would be the most competitive sectors of the U.S. economy such as agriculture, aircraft, and high technology products.

Further, H.R. 5133/S. 2300 would seriously undermine a major U.S. trade effort currently underway which is aimed at reducing the use by foreign governments of local content schemes. At present, domestic content requirements are not utilized for the most part by our major developed trading partners. However, they are widely used among developing countries. Should the United States institute a domestic content scheme of its own, the efforts of our negotiators will be seriously jeopardized. Not only might we be less successful in reducing the use of these domestic content schemes, but U.S. action could result in their increased use worldwide by triggering a wave of similar action by our trading partners. These actions would very likely be taken in a variety of sectors, and in some cases could be directed primarily at U.S. exports.

Finally, I am concerned that supporters argue that the bill would give our trade negotiators leverage in their efforts to seek the reduction of trade barriers maintained by our trading partners in the automobile sector. This bill would become a permanent feature of our laws once enacted. Action on the part of our trading partners to reduce trade barriers would not change their treatment under the local content scheme. Therefore, there is no incentive for other countries to eliminate their own protective measures. I firmly believe that this bill would only make the task of our negotiators more difficult and, in fact, our trade negotiators strongly supported my views during the Subcommittee's hearings.

A further argument against this bill which was addressed during our hearings was the administrative burdens that a local content scheme would create for everyone involved in the automobile industry, both in the public and private sectors. The workload of government and industry in computing and verifying domestic content ratios for the manufacturers would be extremely budensome. Not only automobile manufacturers would be involved in this process. So would the 40,000 or more firms in the supplier network who often supply more than one manufacturer and use imported parts and materials themselves. The paperwork, data collection, and recordkeeping required to make this system work would represent a turnaround from the deregulation and reduced unnecessary presence of our government in the automobile industry and supply chain that we have all supported.

The witnesses we heard from during our hearings clearly showed that the U.S. automobile industry is facing severe difficulties—something that we all have known. They also showed that the industry's problems are complex and will require considerable creative thinking and planning on the part of the government, management, and labor in order to be solved. Further, I think it became clear that local content requirements are not an appropriate or effective remedy for those problems. Local content requirements could not only exacerbate the industry's problems, but they could create new problems in other areas of our economy. In short, it is not at all clear that this bill would accomplish its purposes, but it could hurt those it seeks to help, as well as many others.

I firmly believe that it is possible to develop a positive program for the auto industry—one that comprehensively addresses the source of the industry's problems, both domestic and international. I believe that we can fashion new tax laws to create incentives to invest in much-needed new capital and to help management and labor to put aside its traditional adversarial relationship and work together to promote the industry's health. We can review other laws that put our industries at a disadvantage vis-a-vis their foreign competitors. We can seriously work to develop a new trade adjustment assistance program that would focus on retraining of workers who fall victim to changing conditions in an industry. We can review our trade laws to ensure that they provide adequate and timely relief from imports. Finally, we can aggressively attack practices and policies of our trading partners that are unfair.

To focus only on the trade aspects of the problems facing the U.S. automobile industry would be to address only one small portion of the problem. That would be a disservice to all sectors of our economy. The problems run far deeper than trade. The economic recession that we are currently experiencing is a world-wide phenomenon and it caused the first decline in world trade last year since 1958. Trade restrictions will only further reduce that trade and possibly produce a crippling downward spiral in trade levels worldwide. That result won't help the U.S. or the world.

I think the hearings clearly demonstrated that the bill is an inadequate response to the problems of our auto industry. It would be inflationary, it would violate international obligations, it would produce a net loss of jobs in our economy, and it would jeopardize future investment in the U.S.

In short, this bill in any form is the worst, most misguided piece of legislation in my memory.

Attachment.

AMBASSADOR OF THE UNITED STATES OF AMERICA,
Tokyo, September 15, 1982.

Hon. SAM GIBBONS, M.C.,
Chairman, Subcommittee on Trade.

DEAR SAM: Before leaving Tokyo, I received a call from a member of your staff that you requested my views on "local content" legislation. I am most happy to comply.

I appreciate your giving me the opportunity to comment on H.R. 5133, the automobile local content bill. In terms of its possible impact domestically and internationally, it is, I believe, a misguided attempt to solve a serious problem. It is my opinion that passage of such legislation would be damaging to the world trading system, and a signal to our trading partners that the United States is abandoning the free-trade philosophy that has been a cornerstone of the postwar trading system. Though it is called a job creation bill, rather than encouraging foreign investment in the U.S. auto industry and new employment, it would discourage new investment and damage operations of existing plants. In the context of U.S.-Japan relations, such a bill would effectively put an end to the market liberalization measures that have been going on for the past year in response to efforts by the U.S. and the European countries.

I would like first to address the legislation's possible impact on U.S.-Japan relations. Since content legislation is clearly GATT-illegal, Japan would be entitled to retaliate, and I think we have to expect it would do so. The trade value of 1.2 million automobiles would leave a very large scope for retaliation, and could touch a number of sensitive products such as petrochemicals, aluminum, high technology goods, beef, citrus, tobacco, leather, processed foods, and perhaps such big ticket items as feed grains and coal, where the Japanese would undoubtedly look for other sources of supply. Such restrictions would obviously cause dislocations and, in the U.S., the loss of jobs. In the second instance, passage of such legislation would undoubtedly lead to a strengthening of "traditional" Japanese attitudes that, while exports are good, imports are not. There would be much damage to the Japanese commitment to the international trading system, and Japanese confidence and trust in the U.S. market and U.S. economic policy would be seriously weakened.

As bad as the effects of such legislation would be on the economic side, the damage unfortunately would not be confined to that. The GOJ and the Japanese people would clearly question the value of having an ally that would take such an action against them. The ties binding Japan to the U.S. could weaken significantly, affecting with unpredictable consequences our political and security relationships in ways that could go far beyond Japan.

In addition to the harm to the U.S.-Japan relationship that I have just described, I seriously doubt that, in the long run, the legislation would achieve its stated goal of increasing employment in the auto sector. A more positive method of increasing U.S. employment and decreasing bilateral trade frictions is to encourage Japanese auto companies to invest in the United States. Honda and Nissan have established plants and Toyota is actively considering investment. Local content legislation would threaten all such investment plans, and perhaps force existing plants to close, since they operate with imported components. The Japanese companies have indicated their intention to increase local sourcing for autos produced in the U.S.; this is the trend we should encourage. We should also encourage Japanese manufacturers to certify U.S. made parts for use in Japanese cars repaired in the U.S.

There are several factors that will affect the ability of U.S. auto manufacturers to regain their competitive position in the world market. The first, of course, is overall economic recovery and a decline in high interest rates, without which the market for all automibiles cannot prosper. A second factor would be a renewal of our commitment to quality and productivity by both management and labor. I am encouraged by indications that this renewal is underway. Moderation of prices, too, is taking place, as shown by the recent General Motors announcement of price decreases on many models. Labor unions, through realistic restraint in recent wage talks; management, through emphasis on quality in design and manufacture; and the willingness of both sides to cooperate in achieving a quality product will go a long way to making American made automobiles competitive again.

Conversely, local content legislation, by offering protection to American auto companies, would reduce price competition and thereby reduce the incentive for American companies to innovate and economize. The winner—in the very short run—might be the American auto worker. The losers would be the American consumer, the American worker in export oriented industries, and in the longer run, probably the auto workers as well. Artificial trade barriers cannot provide a lasting solution to economic difficulties; management and labor cooperation to build a good, competitive auto, and the recovery of the U.S. economy must be our goals.

With best personal wishes, I am,

Sincerely yours,

MIKE MANSFIELD.

The CHAIRMAN. Thank you very much.

Next let's move to Dr. Alice Rivlin, the Director of the Congressional Budget Office.

Good morning, Doctor, it is good to see you. Go right ahead.

STATEMENT OF ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Ms. RIVLIN. Good morning, Mr. Chairman. I am very happy to be here to consider this important legislative proposal (S. 2300). The Congressional Budget Office's analysis of the domestic content bill basically concludes that, while S. 2300 would stimulate employment in the U.S. automobile industry, it would, in general, be bad for the American economy. It would reduce total employment and output.

It is very tempting legislation, because the situation in the automobile industry is so serious at the moment, as no one needs to reiterate. The combination of changes in the demand for automobiles and very serious recession has reduced employment severely.

I will not go over the mechanics of this bill, which are familiar to you. Let me pick up in my prepared statement and talk about the economic effects as we see them.

The CHAIRMAN. I would appreciate it, if you wouldn't mind, if you could distinguish your testimony from that of the United Auto Workers. Your analysis of S. 2300 is more in line with most of the other estimates I have seen, and there is an extraordinary difference in terms of the UAW estimates.

Ms. RIVLIN. Yes; it is based on somewhat different assumptions about several things, particularly about what we expect to happen to the automobile industry without domestic content legislation. In that respect, we are actually more encouraged about the future of the automobile industry in the United States than the UAW is.

We see the import share probably staying about where it is—at about a quarter of total new car sales—and not getting any worse. We think that the impact of the shift to the small cars has essentially already taken place. The UAW analysis, by contrast, sees the import share going to about 40 percent by the end of the phase-in period—that is by 1990. These assumptions make some difference, and there are some other differences.

Let me pick up on page 5 of my statement and talk about what we do see as the result of this legislation.

Like any form of restrictive trade policy, S. 2300 would reduce U.S. national income, and the resultant smaller income would be redistributed in favor of the beneficiaries of the restriction. The bill would undoubtedly stimulate production and employment in U.S. auto and auto-related industries. But these benefits for the automotive industry would occur only at some costs to other sectors of the economy—and to consumers.

Whatever positive economic effects for U.S. output and employment might result from this bill would probably be temporary. And, further, they would depend on the considerable slack now in the U.S. economy. In a more fully employed economy, the overall effects of S. 2300 would likely be negative: Employment and output gains in the U.S. auto industry would require shifts of capital and labor resources from other parts of the economy. The consequent inefficiencies entailed by these shifts in resources, in combination with the higher inflation likely to result, could dampen real output. The U.S. economy as a whole, therefore, stands to suffer a net loss. This suggests that conventional monetary and fiscal policies would ultimately be safer tools for trying to attain high employment goals.

For the near term, however, the restriction of automotive imports implied in the proposed legislation could have a significant and direct effect on output and employment in the U.S. automotive and related industries. Assuming that domestic sales of new cars do return to earlier trend rates, and that all foreign auto producers increase their sales volumes at rates that maintain 1981 U.S. market shares, S. 2300 would have the effect of reducing auto imports into the United States to about 1.35 million units by 1990—approximately 35 percent of the 3.75 million units that might otherwise have been imported in that year. The displacement of 2.4 million foreign cars would force all new vehicle prices up by an average, we estimate, of about $500 per car by 1990. This outcome would stimulate domestic production by, in effect, levying a heavy tax on U.S. auto buyers. In response to higher auto prices, auto sales would be dampened. As a result, U.S.-built vehicle sales would rise by only 1.6 million units, in contrast to the displacement of 2.4 million foreign cars. These estimates are detailed in table 2 of my prepared statement.

Corresponding to this increase in domestic auto production, direct employment in auto manufacturing would rise by about 70,000 jobs more than otherwise by 1990. Employment in auto related-industries would rise by 130,000 jobs more than otherwise.

Despite these benefits to the U.S. automotive industry, the net effects for the U.S. economy—measured in terms of real economic growth, inflation, and employment—would be negative. The benefits accruing to U.S. automakers would be more than outweighed by the cost borne by the rest of the economy.

There are two principal reasons why such legislation can affect the U.S. economy adversely. First, it can reduce efficiencies throughout the U.S. economy by artificially shifting resourcess from some sectors to others—in this case to auto production. This has the inflationary effect of driving up the price of labor and capital for all industries, as well as the price of finished goods. Second, the reduction in world trade likely to ensue from the bill would in turn dampen demand for U.S. exports, reducing output and employment in the U.S. export industries.

The quite possible response of the U.S. trading partners to a restrictive policy such as S. 2300 suggests another major area of risk. Foreign governments whose auto producers were injured by this legislation would have the right, under the General Agreement on Tariffs and Trade, to retaliate with dollar-for-dollar trade restrictions on U.S. exports. Foreign economic activity would contract as a result of S. 2300, in turn diminishing foreign demand for all U.S. exports. A reduction in U.S. import demands from fewer auto imports would further strengthen the U.S. dollar on international exchange rate markets, which could raise the price of, and lower the demand for, the export products of U.S. firms. In light of the importance to foreign economies—principally, to Japan's—of their auto industries, and the current depressed condition of the world economy in general, it seems reasonable to assume that these significant international repercussions would be likely—as passed on December 15, the House version of the bill contains language that would guard against violations of standing trade agreements. The Senate version, however, thus far contains no comparable safeguard. Any combination of these likely outcomes could harm U.S. economic performance.

Ultimately, the gain of 200,000 jobs in U.S. auto and auto-related industries would, we think, be countered by elimination of 350,000 jobs caused by foreign economic responses to this legislation. This asymmetry—indicating that the number of jobs lost through restrictions of U.S. exports would exceed the number of jobs created by reduced auto imports—reflects the fact that U.S. export industries are more labor- and skill-intensive than U.S. auto and auto-related industries. Assuming that the international economic repercussions that could result in equivalent trade restrictions on U.S. exports did materialize, the CBO analysis concludes that, by 1990, the U.S. price level would be marginally higher, real gross national product would be slightly lower, and the overall U.S. unemployment rate would be slightly higher (by perhaps 0.2 percentage points) than otherwise.

In being a restrictive policy, S. 2300 threatens the unconstrained trading order that has been the keystone of U.S. foreign economic policy. For some 20 years, the United States has pioneered in dismantling of impediments to the free international flow of goods and services. Adoption of S. 2300 would represent a backward step in this progressive movement. One likely result would be counterproductive trade wars. Under these circumstances, hard won advantages for the United States and its trading partners derived from a liberal trading order would be lost.

To summarize, Mr. Chairman, the CBO's analysis concludes that, although S. 2300 would somewhat stimulate production and employment in U.S. auto and auto-related industries, it would do so only by imposing sizable costs on the rest of the U.S. economy. Even if foreign economic repercussions were smaller than CBO has assumed, S. 2300 would, at best, provide only a temporary stimulus to overall output and employment. The bill's net long-term outcome would be negative, any positive effects on the U.S. automotive industry being more than canceled out by the losses to other sectors of the economy. In the far more likely case of significant international economic responses, the negative effects on the economy as a whole could be markedly greater. The CBO concludes that S. 2300 would not contribute to the objective of higher U.S. employment.

Thank you, Mr. Chairman.

The **Chairman**. Some testimony we have had, Dr. Rivlin, alleged that this bill is aimed principally at Japan, and indeed that is where it is targeted, and further, that it will not result in general foreign trade retaliation. These same witnesses have testified that other countries have already very severely limited Japanese imports and have suffered no serious foreign trade retaliation. Do you want to comment on that?

Ms. **Rivlin**. Yes. The U.S. market for automobiles is very important to Japan. I think the fact that they may not have retaliated against Spain or Australia, which do have similar domestic content legislation, may be because retaliation is not worthwhile. Sales to Spain or Australia do not add up to a large part of Japans export market.

First, if the Japanese are selling fewer cars to the United States, they are buying less from us. But, in terms of sheer retaliation, it seems unlikely that the Japanese would let a restrictive U.S. policy go unnoticed.

The **Chairman**. The form of retaliation, if it is Japan, has to be: We won't buy any of your wheat. We won't buy any of your tobacco. We won't buy any of your citrus fruit. We will buy those elsewhere in the world.

Ms. **Rivlin**. I wouldn't want to speculate on exactly what they would do. But they would certainly have a strong incentive to restrict some imports from the United States.

The **Chairman**. The auto industry would argue that there isn't much more that they can do to restrict our auto imports. In fact, I was in Japan 1 month ago, and I met with the Japanese Automobile Manufacturers Association, and they said that the United States has only 4,000 units a year in the Japanese market anyway. So from that standpoint, I don't know what they can do to us.

I do oppose this bill, but I am trying to figure out what Japan could do or would do if we very severely restrict their imports.

Is there a possibility that the threat of the passage of this might have the other effect, it might cause them to loosen up, rather than tighten up?

Ms. **Rivlin**. I think there is a possibility.

There is no question that Japan has serious nontariff barriers against American imports. They have not had a free trade, open economy, and the United States has been working very hard on that problem, with less success than one might hope. But, for the United States to undertake a very restrictive trade policy seems likely to do more harm than good.

The **Chairman**. I agree.

I have no other questions. Thank you very much for taking the time. I appreciate it.

Ms. **Rivlin**. Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, the Fair Practices in Automotive Products Act, S. 2300, and its counterpart just passed in the House (H.R. 5133), are designed to reverse deteriorating employment conditions in the U.S. automotive industry.[1] The Congressional Budget Office's analysis of this proposed legislation concludes, however, that while it would stimulate employment in the auto industry, it would reduce total U.S. employment and output.

CURRENT EMPLOYMENT CONDITIONS IN THE U.S. AUTO INDUSTRY

The U.S. automotive industry is in its worst decline in more than 40 years. This is manifested both in the very depressed levels of automotive production and sales registered thus far in 1982, and in the extremely high rates of unemployment among workers in auto and auto-related industries. Employment in auto manufacturing has fallen dramatically for some four years already—dropping from a peak of more than 762,000 production workers in December 1978 to fewer than 481,000 workers in September 1982. This represents a drop of nearly 40 percent. As of early this month, more than one-quarter million auto workers were on indefinite layoff.

A variety of causes underlie the high unemployment among U.S. auto workers. Slow economic growth, recession, and record high interest rates have been the dominant factors holding down levels of domestic auto production in recent years. The displacement of domestic car sales by increased imports, as the U.S. market swung from standard-size toward subcompact models, has also resulted in additional job losses among U.S. auto workers. Over the past decade, foreign manufacturers have nearly doubled their share of the U.S. passenger car market—from 15 percent in 1971 to 27 percent in 1981, and their share has averaged about 28 percent for the first 11 months of 1982. Finally, both productivity improvements and increased "offshore sourcing" of auto components, as domestic manufacturers attempted to respond to heightened foreign competition, have also slowed growth in domestic automotive employment.

Even complete economic recovery from the current recession, in combination with a substantial recovery of past market shares, would not cause U.S. automotive employment to rebound to the peak levels of 1978. Introduction of more efficient plant and processes in the automotive industry, together with the continued shift toward smaller cars, will ultimately mean lower levels of automotive industry employment. Gains in production efficiencies, diminishing labor intensiveness, seem bound to translate into losses in employment. Many of today's auto industry layoffs probably represent permanent job losses.

THE MECHANICS OF S. 2300 AND THEIR EFFECTS ON THE AUTOMOBILE INDUSTRY

The bill now before this committee would attempt to restore U.S. auto industry jobs by instituting minimum "domestic content" requirements for most passenger vehicles and light trucks sold in the United States, beginning with model year 1983. The domestic content requirements—calculated as U.S. value added as a percent of the wholesale price—would have to be met by each domestic and foreign auto manufacturer producing more than 100,000 units for sale in the U.S. market. These requirements would be graduated according to the number of vehicles sold by each manufacturer. After the first year of implementation, increasingly stringent requirements would be imposed until 1985, when the provisions of S. 2300 are to be fully phased in (see Table 1). By that year, the domestic content requirement would be as high as 90 percent for the larger foreign manufacturers.

Industry effects.—If implemented, S. 2300 would impose penalties on producers who failed to meet the domestic content requirements applying to them. Any manufacturer—foreign or domestic—violating the requirements in any model year would have to reduce its total U.S. sales of vehicles and parts by 25 percent in the following model year. Thus, for example, a foreign manufacturer selling 400,000 units in the United States in 1985 but failing to meet its domestic content requirement would be forced to reduce its sales to the U.S. market to 300,000 units in 1986.

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[1] The Congressional Budget Office's estimates of H.R. 5133 are summarized in appendix A attached to this statement.

TABLE 1. DOMESTIC AUTO CONTENT REQUIREMENTS UNDER THE FAIR PRACTICES IN AUTOMOTIVE PRODUCTS ACT (S. 2300)

Number of vehicles sold in the United States	Minimum percentage U.S. content requirement		
	1983	1984	1985
Fewer than 100,000	0	0	0
100,000 to 149,000	8.3	16.7	25.0
150,000 to 199,000	16.7	33.3	50.0
200,000 to 499,000	25.0	50.0	75.0
500,000 or more	30.0	60.0	90.0

Source: S. 2300.

The greatest direct effect of this legislation would be on the six large-volume Japanese auto producers and one German firm—Toyota, Nissan, Honda, Toyo Kogyo, Subaru, Mitsubishi, and Volkswagen. If these firms sought to maintain a high sales volume in the U.S. market, they could realistically comply with the provisions of the bill only by relocating a significant proportion of production to the United States; otherwise they would each ultimately be forced to limit sales in the United States to 100,000 units a year. Even if these foreign automakers were to relocate their production facilities to U.S. sites, they would need to meet a 75 percent domestic content requirement overall in order to sell just 200,000 units per year. This is a stringent requirement that would demand not only the relocation of assembly, stamping, engine, and transmission facilities to the United States, but also the purchase of sustantial volumes of domestically produced parts and materials as well.

Because these firms would probably thereby suffer the loss of the cost advantages they now enjoy, no sizeable shift of foreign production facilities to the United States would likely occur. Rather, the practical effect of the bill would be the imposition of a rigid import quota of 100,000 units per year on each foreign auto producer. By 1990, the bill would have the effect of reducing auto imports to the United States by as much as two-thirds of the volume that would have been imported otherwise.

CBO ESTIMATES OF THE ECONOMIC EFFECTS OF S. 2300

Like any form of restrictive trade policy, S. 2300 would reduce U.S. national income, and the resultant smaller income would be redistributed in favor of the beneficiaries of the restriction. The bill would undoubtedly stimulate production and employment in U.S. auto and auto-related industries. But these benefits for the automotive industry could occur only at some costs to other sectors of the economy—and to consumers.

Whatever positive economic effects for U.S. output and employment that might result from this bill would probably be temporary. Further, they would depend on the considerable slack now in the U.S. economy. In a more fully empolyed economy, the overall effects of S. 2300 would likely be negative: employment and output gains in the U.S. auto industry would rely on shifts of capital and labor resources from other parts of the economy. The consequent inefficiencies entailed by these shifts of resources, in combination with the higher inflation likely to result, could dampen real output. The U.S. economy as a whole, therefore, stands to suffer a net loss. This suggests that conventional monetary and fiscal policies might ultimately be safer tools for trying to attain high employment goals.

For the near term, however, the restriction of automotive imports implied in this proposed legislation could have a significant and direct effect on output and employment in the U.S. automotive and related industries. Assuming that domestic sales of new cars do return to earlier trend rates, and that all foreign auto producers increase their sales volumes at rates that maintain 1981 U.S. market shares, S. 2300 would have the effect of reducing auto imports to the United States to about 1.35 million units by 1990—approximately 35 percent of the 3.75 million units that might otherwise have been imported in that year. The displacement of 2.4 million foreign cars would force all new vehicles prices up—by an average of about $500 per unit by 1990. This outcome would stimulate domestic production by, in effect, levying a heavy tax on U.S. auto buyers. In response to higher auto prices, auto sales would be dampened. As a result, U.S.-built vehicles sales would rise by only 1.6 million units, in contrast to the displacement of 2.4 million foreign cars (see Table 2).

TABLE 2. SUMMARY OF CBO ESTIMATES OF ECONOMIC EFFECTS OF DOMESTIC CONTENT LEGISLATION, BY 1990 (S. 2300)

	Under current policy	Under S. 2300	Change resulting from S. 2300
Sales of new cars and light trucks (in thousands):			
Domestic	11,250	12,850	+1,600
Imported	3,750	1,350	−2,400
Total	15,000	14,200	−800
Average price of cars and light trucks (in 1982 dollars)	8,850	9,350	+500
Employment effects (in thousands of workers):			
Automobile manufacturing	803	873	+70
Auto-related industries	1,887	2,017	+130
Non-auto-related industries	112,444	112,094	−350
Total	115,134	114,984	−150
Real gross national product (in billions of 1972 dollars)	1,923.2	1,917.4	[1]−0.3
Consumer Price Index (1972=100)	486.4	487.9	[1]+0.3
Unemployment rate (in percents)	6.5	6.7	+0.2

[1] Percentage.

Source: Congressional Budget Office.

Corresponding to this increase in domestic auto production, direct employment in auto manufacturing would rise by about 70,000 jobs more than otherwise by 1990; employment in auto-related industries would rise by 130,000 jobs more than otherwise.

Despite these benefits to the U.S. automotive industry, the net effects for the U.S. economy—measured in terms of real economic growth, inflation, and employment—would be negative. The benefits accruing to U.S. automakers would be more than outweighed by the cost borne by the rest of the economy.

There are two principal reasons why such legislation can affect the U.S. economy adversely. First, it can reduce efficiency throughout the U.S. economy by artificially shifting resources from some sectors to others—in the case of S. 2300, to auto production. This has the inflationary effect of driving up the price of labor and capital for all industries, as well as the price of finished goods. Second, the reduction in world trade likely to ensue from the bill would in turn dampen demand for U.S. exports, reducing output and employment in U.S. export industries.

INTERNATIONAL TRADE RESPONSES AND THEIR CONSEQUENCES FOR THE U.S. ECONOMY

The quite possible response of the United State's trading partners to a restrictive policy such as S. 2300 suggests another major area of risk. Foreign governments whose auto producers were injured by this legislation would have the right, under articles XI and XXIII of the General Agreement on Tariffs and Trade (GATT), to retaliate with dollar-for-dollar trade restrictions on U.S. exports. Foreign economic activity would contract as a result of S. 2300, in turn diminishing foreign demand for all U.S. exports. A reduction in U.S. import demand from fewer auto imports would further strengthen the U.S. dollar on international exchange rate markets, which could raise the price of, and lower the demand for, the export products of U.S. firms. In light of the importance to foreign economies—principally, to Japan's—of their auto industries, and the current depressed condition of the world economy in general, it seems reasonable to assume that these significant international repercussions would be likely. (As passed on December 15, the House version of the bill contains language that would guard against violations of standing trade agreements. The Senate version, however, thus far contains no comparable safeguard.) Any combination of these likely outcomes could harm U.S. economic performance.

Ultimately, the gain of 200,000 jobs in U.S. auto and auto-related industries would be countered by elimination of 350,00 jobs caused by foreign economic responses to the legislation. This asymmetry—indicating that the number of jobs lost through restrictions of U.S. exports would exceed the number of jobs created by reduced auto imports—reflects the fact that U.S. export industries are more labor- and skill-intensive than U.S. auto and auto-related industries. Assuming that the international economic repercussions that could result in equivalent trade restrictions on U.S. exports did materialize, the CBO analysis concludes that, by 1990, the U.S. price level would be about 0.3 percent higher, real Gross National Product (GNP) about 0.3 percent lower, and the overall U.S. unemployment rate 0.2 percentage points higher than otherwise.

In being a restrictive policy, S. 2300 threatens the unconstrained trading order that has been the keystone of U.S. foreign economic policy. For some 20 years, the United States has pioneered in the dismantling of impediments to the free international flow of goods and services. Adoption of S. 2300 would represent a backward step in this progressive movement. One likely result would be counterproductive trade wars. Under these circumstances, hard-won advantages for the United States and its trading partners derived from a liberal trading order would be lost.

CONCLUSION

The CBO's analysis concludes that, although S. 2300 would somewhat stimulate production and employment in U.S. auto and auto-related industries, it would do so only by imposing sizable costs on the rest of the U.S. economy. Even if foreign economic repercussions were smaller than CBO has assumed, S. 2300 would, at best, provide only a temporary stimulus to overall output and employment. The bill's net long-term outcome would be negative, any positive effects for the U.S. automotive industry being more than cancelled out by the losses to other sectors of the economy. In the far more likely case of signifcant international economic responses, the negative effects of S. 2300 on the economy as a whole could be markedly greater. The CBO concludes that S. 2300 would not contribute to the objective of higher U.S. employment.

In inviting foreign trade retaliation, the bill runs counter to the longstanding U.S. objective of promoting open and free trade. Accordingly, it risks reigniting trade restrictions worldwide, which, past experience has shown, can have destructive effects not only on the U.S. economy but also on the world economy in general. Trade is no longer a relatively small part of the U.S. economy. Indeed imports and exports each constitute more than 12 percent of our current GNP. Using import restrictions to assist a beleaguered import-competing industry such as autos can boomerang and adversely affect U.S. export industries.

APPENDIX

S. 2300 VS. H.R. 5133

Several important differences distinguish the bill being considered by this Committee from H.R. 5133, the counterpart legislation just passed in the House of Representatives. These differences markedly affect the estimates of both the macroeconomic and microeconomic effects of the proposals. The two most important such factors are the ways in which the two bills define the applicable domestic content requirement, and the way these requirements are estimated.

DIFFERENCES IN DEFINITIONS

S. 2300 defines domestic content as the sum of the value of the parts and labor contained in an automobile. The House version of the bill includes in "added domestic value" total U.S. sales plus exports less imports. Included under this broader definition are such added U.S. expenditures as advertising, taxes, customs duties, interest payments, and shipping from docks to sales points. Because of this more broad-based definition, CBO estimates that foreign producers would be able to attain about 25 percent domestic content with only minor changes in production and supply patterns, and without significant relocation of productive capacity. Under the definitions contained in S. 2300, in contrast, attaining domestic content levels in excess of 10 percent would require a major investment for plants in the U.S.

DIFFERENCES IN CONTENT REQUIREMENTS

Under S. 2300, domestic content requirements are established by fixed percentages, beginning in 1983. For example, for sales of 100,000 units or fewer, no domestic content requirement applies. The sale of just one vehicle beyond that threshold would, however, activate a domestic content requirement of 25 percent for all 100,001 units sold. As sales increase, these requirements increase at set thresholds, with a maximum of 90 percent content required at sales in excess of 500,000 units. By contrast, under the bill just adopted in the House, the domestic content ratio is determined by a formula by dividing the number of vehicles sold between 100,000 and 900,000 by 10,000. So sales of 380,000 would necessitate domestic content of 38 percent.

THE EFFECTS OF THE HOUSE BILL

As as consequence of these differences, the House version of the domestic content bill would have only about two-thirds of the effects on the industry and the economy as would S. 2300. The House version would have the effect of reducing imports to the United States to about 2.6 million units by 1990—approximately 70 percent of the 3.8 million units that might otherwise have been imported.

By 1990, the displacement of this 1.2 million units (see Table A) of imports would now force new car prices up by an average of $333 per unit. As a result of this price increase, U.S. demand for autos would decline. Consumption of U.S.-built cars would therefore increase by 623,000, in contrast to the displacement of 1.2 million units of foreign cars. Corresponding to this increase in U.S. auto production, the CBO estimates that, by 1990, employment in the U.S. auto industry would increase by 38,000 jobs more than otherwise.

The overall effect of the legislation on the U.S. economy would, however, be negative. The benefits accuring to U.S. auto industry would be more than outweighted by the costs to the rest of the economy. A combination of reduced efficiency in the United States, along with lower demand for U.S. exports and foreseen responses from our trading partners, would combine to affect this reduction in overall U.S. employment and activity. CBO results show that, by 1990, the U.S. price level would be about 0.2 percent higher, real Gross National Product about 0.1 percent lower, and the overall unemployment rate about 0.1 percent higher than otherwise. The gain of 107,000 jobs in the auto and auto related industries would be countered by the elimination of 173,000 jobs in other sectors of the U.S. economy due to the above-noted causes.

The CBO concludes that under the both versions of the bill, the U.S. auto industry would gain at the cost of the other sectors of the U.S. economy. Because of the two principal differences between the bills, both the beneficial and detrimental effects of the House bill would be only about two-thirds the size of S. 2300.

TABLE A. SUMMARY OF ECONOMIC EFFECTS OF DOMESTIC CONTENT LEGISLATION BY 1990

[H.R. 5133 as passed Dec. 15, 1982]

	Under current policy	Under H.R. 5133	Change resulting from H.R. 5133
Sales of new cars and light trucks (in thousands):			
Domestic	11,250	11,873	+623
Imported	3,750	2,603	−1,147
Total	15,000	14,476	−524
Average price of cars and light trucks (in 1982 dollars)	8,850	9,183	+333
Employment effects (in thousands of workers):			
Automobile manufacturing	803	841	+38
Auto-related industries	1,887	1,956	+69
Non-auto-related industries	112,444	112,271	−173
Total	115,134	115,068	−66
Real Gross National Product (in billions of 1972 dollars)	1,923.2	1,921.3	[1] −0.1
Consumer Price Index (1972=100)	486.4	487.4	[1] +0.2
Unemployment rate (in percents)	6.5	6.6	+0.1

[1] Percentage.

Source: Congressional Budget Office.

QUESTIONS OF THE COMMITTEE AND THE ANSWERS THERETO

Question. You state in your testimony that direct employment in auto manufacturing and auto-related industries would increase more than otherwise by 1990 as a result of S. 2300. You also note that this job gain would be countered by the elimination of jobs caused by foreign economic responses to the legislation. What types of retaliatory actions would you envision?

Answer. Foreign economic responses to enactment of S. 2300 could bring about severe economic consequences to U.S. industrial output and employment in export and export-related U.S. industries. These could include: Direct retaliation on the part of the United States' trading partners against U.S. exports; Reduced foreign demand for U.S. exports resulting from contracted foreign economic activity attributable to lost auto production; Appreciation of dollar exchange rates caused by reduced U.S. imports, eroding the competitive position of U.S. export and import-competing industries; and Reduced levels of world trade resulting from increases in foreign protectionist trade policies.

Automobiles represent a sizeable portion of the industrial output of the United States' trading partners. In light of the auto industry's importance—especially to Japan, the nation that stands to be most adversely affected—and of the current depressed condition of the world economy, to assume that retaliatory actions would be taken is reasonable. Direct retaliation in such circumstances is in fact sanctioned by Articles XI and XXIII of the General Agreement on Tariffs and Trade (GATT). Which specific U.S. exports would be targeted for retaliation would depend upon existing trade patterns and on the availability of alternative sources for the restricted product. For example, in the short run Japan would have trouble retaliating against U.S. capital goods exports; however, for U.S. exports of agricultural goods, timber and paper base stock, and bituminous coals there are readily available alternative suppliers. U.S. exports of these substitutable products amounted to over $8.0 billion in 1982, easily enough to offset the value of curtailed Japanese auto exports to the U.S.

Retaliation against U.S. exports is of course only one of the possible consequences of domestic content legislation: it is also the most economically inefficient response. Any combination of the foreign economic response noted above—appreciation of the dollar, reduction in foreign activity, reduced U.S. exports—would be sufficient to offset the macro-economic gains accuring to the U.S. from enactment of S. 2300.

Question. To what extent do you believe economies of scale are responsible for the cost advantages enjoyed by Japanese manufacturers over their American counterparts?

Answer. Economies of scale are not generally regarded as a principal source of the cost advantages Japanese auto producers enjoy over American counterparts. The assumption behind such arguments is that the price of each unit of output declines as the level of output increases, because the costs of certain necessary, fixed investments (plant, machinery, training of a labor force, and so forth) can be averaged over a larger sales volume. The price reductions attainable from increasing volumes have limits, though. At some point, the existing production facilities will be so heavily taxed that, to produce one additional unit, new investment will have to be undertaken making the additional product cost more than the penultimate unit of output. Thus, there is very little evidence to suggest that Japanese producers are in a better position to exploit the cost advantages of high-volume production than are U.S. car makers. Both markets are of a sufficient magnitude to allow for levels of production sufficient to obtain savings attributable to scale.

In the current context of very low levels of capacity utilization in the United States auto industry, however, temporary advantages due to scales of production may accrue to the Japanese. Capacity utilization in the U.S. auto industry averaged just 53 percent in 1982; though it is difficult to pinpoint, U.S. auto industry analysts estimate Japanese capacity utilization in 1982 to have been 87 percent to 92 percent. Given these disparities, Japanese automakers probably do currently have lower average costs. Such advantages can only persist in the short term, though. When U.S. automaker believe that demand for U.S. autos will not pick up, they lay off workers and shut down plants until they again reach cost-effective utilization rates. Therefore, to whatever extent Japanese producers today may be enjoying a cost advantage caused by higher levels of capacity utilization, these are due primarily to cyclical economic factors—such as the U.S. recession—rather than to any permanent disparities between the structures of the two industries.

Question. What do you consider to be the primary causes of the U.S. auto industry's current problems? To what extent do you consider automobile imports to be a factor?

Answer. Four major economic factors have contributed to the current depressed condition of the U.S. auto and auto-related industries: The current prolonged recession in combination with high interest rates; A slowing in the overall growth of the nation's automobile fleet, reflecting changes in the composition of the population; Higher gasoline prices and changes in U.S. consumers' tastes, which reduced demand for relatively larger and less fuel-efficient domestic autos; and Growth in "offshore sourcing" (purchasing from foreign markets) of vehicle parts by U.S. auto manufacturers.

A strong recovery from the present recession would alleviate many, but certainly not all, of the U.S. auto industry's problems. Changed tastes, "offshore sourcing", and high gasoline prices, among other factors, all suggest that the domestic auto and auto-related industries are unlikely to return to the record high U.S. production levels of 1978. Nor is employment in auto and auto-related industries likely to rebound to those peak levels. Introduction of more efficient plant and processes in the industry, together with the continued shift towards smaller cars will ultimately mean relatively lower levels of industry employment. Therefore, many of today's quarter of a million automotive industry layoffs probably represent permanent job losses.

Question. What is your opinion of allegations that Japan maintains a closed market to automobile imports? What tariff and non-tariff barriers does Japan impose on automobiles imported from the United States?

Answer. For a variety of reasons, Japan has never been a major purchaser of U.S. automobiles. Though some analysts argue that this is due to highly restrictive trade barriers, it is more likely a consequence of the type of product that U.S. automakers offer. In fact, Japan currently imposes no import tariff on automobiles. Japan does have a number of non-tariff barriers, most importantly a requirement that every imported automobile be inspected individually to assure compliance with Japanese standards. Such detailed inspection, according to representatives of the U.S. industry, raise the cost of imported autos in Japan, making it impossible for them to compete with locally made cars.

Even if Japanese impediments to U.S. car exports were removed, sales of American cars there would probably not increase dramatically. This conclusion is prompted by a number of considerations, most importantly, that the features of U.S. made cars do not appeal to the tastes and needs of Japanese buyers. For example, since all petroleum products are imported to Japan, the price of gasoline there is very high, making the Japanese consumer exceptionally sensitive to a car's fuel efficiency. Furthermore, Japanese customers prefer subcompact and smaller cars-because of the scarcity and high cost of parking space, the narrowness of many Japanese streets—and the U.S. automakers have been not been producing such small cars. Further, U.S. automakers have also been unwilling to undertake the major investments necessary to establish a chain of suppliers and service centers in Japan. Even relatively simple modifications, such as placing steering wheels on the right hand side (the Japanese drive on the left) have not been undertaken.

In conclusion, even with the removal of Japan's major non-tariff barriers to auto imports, sales of U.S. motor vehicles and parts are unlikely to increase dramatically from the 1981 level of $173 million. Even if the volume of sales were to increase tenfold as a result of the lifting of all binding trade barriers, U.S. sales in Japan would still amount to only 14 percent of the $12 billion in Japanese sales of motor vehicles and parts in the United States in 1981.

Question. Please explain in more detail the importance of the differences between S. 2300 and H.R. 5133 in the definition of "domestic content" and the prescribed domestic content ratios. What are the implications of these differences on foreign and domestic automobile manufacturers?

Answer. S. 2300 vs. H.R. 5133.

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By 1990, the displacement of this 1.2 million units (see Table A) of imports would now force new car prices up by an average of $333 per unit. As a result of this price increase, U.S. demand for autos would decline. Consumption of U.S.-built cars would therefore increase by 623,000, in contrast to the displacement of 1.2 million units of foreign cars. Corresponding to this increase in U.S. auto production, the CBO estimates that, by 1990, employment in the U.S. auto industry would increase by 38,000 jobs more than otherwise.

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Consumer Price Index (1972=100)	486.4	487.4	[1] +0.2
Unemployment rate (in percent)	6.5	6.6	+0.1

[1] In percent.

Source: Congressional Budget Office.

Question. It has been said by some that domestic content legislation would give a clear signal to Japan that we insist on elimination of unfair trade practices. What kind of a signal do you believe S. 2300 would send to Japan and our other trading partners?

Answer. Imposing barriers such as those implicit in the domestic content legislation is a poor way of showing our displeasure with what we perceive to be unfair

Japanese trade practices. Such action would presume that content requirements offset distortions introduced by policies which "unfairly" enhance the competitiveness of Japanese exports. For such restrictions to make sense, there must be a determination that the principal cause of the U.S. auto industry's problems is import competition. In fact, though imports have probably exacerbated the problems of the industry, the more likely principal cause of its ills is the failure of the industry to adapt to market conditions of the post oil shock era.

Predicting how a nation will respond to the imposition of restrictions on its exports is of course very difficult. These reactions are likely to be shaped by an assessment of the factors prompting the imposition of the barriers, by the condition of the industry affected and by the overall health of the economy. In view of the current low levels of employment and output in the U.S. auto industry, and the depth and persistence of the current U.S. recession the Japanese would probably view domestic content requirements as an attempt to boost output in the U.S. auto industry. They are unlikely to see it as a message that Japan must be willing to bear the costs, as well as the benefits, which correspond to its role as a major economic power.

The CHAIRMAN. Let's move on to Lloyd Anderson, the executive director of the Port of Portland.

Good morning, Lloyd. Go right ahead.

STATEMENT OF LLOYD ANDERSON, EXECUTIVE DIRECTOR, PORT OF PORTLAND, ACCOMPANIED BY J. RON BRINSON, PRESIDENT, AMERICAN ASSOCIATION OF PORT AUTHORITIES

Mr. ANDERSON. Thank you, Mr. Chairman.

I would like to introduce Ron Brinson, who is with the American Association of Port Authorities. If you have questions of either Ron or me at the end of my testimony, we will be glad to try to respond.

The CHAIRMAN. Thank you.

Mr. ANDERSON. Just by way of quick background, I am chairman-elect of the American Association of Port Authorities; president of the Institute for Transportation of the American Public Works Association; and past-chairman of the National Waterways Conference. My testimony today, however, will be in behalf of the port of Portland.

I have submitted testimony earlier, and I will not detail that, but try to highlight at least some of the points made in that testimony that has been filed.

We are opposed to this domestic content legislation, or any variation that proposes protectionist actions by the United States. As earlier testimony has indicated, we don't see this as a jobs bill. In fact, it is going to cost jobs. If we recognize our long-term economic gain that comes from international trade, this protectionist legislation won't open doors, but rather it will close them.

Trade is obviously important to the United States, and it is also important to our port and to the State of Oregon. About 25 percent of our gross State product in Oregon is in international trade. About one out of eight jobs is in the maritime industry. With reference directly to cars, there is about 1 job for every 230 cars coming into the United States.

The CHAIRMAN. One direct job?

Mr. ANDERSON. That is correct.

That translates, if you look at direct and indirect and induced jobs, to about 9,000 jobs in Oregon that would be affected if you have this kind of legislation passed.

The CHAIRMAN. I was struck not only by that figure, when you initially told it to me, but as you are aware, at my request the Department of Transportation called the port and asked for your methodology. They agree with the methodology. They had already done a study and they had come to the same conclusion that you had come to, without knowing that you both used the same methodology.

Mr. ANDERSON. I hope that one could conclude from that we are both right. We may be both wrong. I think in looking at it initially—having the work done independently, then having it followed up by some subsequent work, and then work done in Houston and other places around the country—it is supportable by technical work.

As you are well aware, our unemployment in Oregon is high, and is in fact getting higher. I don't see this legislation doing anything but contributing more unemployment to longshoremen, truckers, accessorizers, people handling the cars themselves. Certainly, if you are looking at distributions and others who make their living out of the import automobile business, there will be a serious loss.

I think it might merit mentioning that as resources in the United States get more scarce, the need for international trade, and the soundness of it, increases. This action of passing legislation certainly is not going to contribute to that.

Finally, I would say that the action of the House, if you are seeking a message, which you implied earlier, is message enough. It is time for a continuing and tough negotiation. Certainly, when you were in Japan and indicated to the auto manufacturers that trade is a two-way street,this is a message that the Japanese need to get over and over again. I suspect that the legislation that has passed the House would make that messages strong enough without any further action from the Senate.

I think to pass legislation like this, if you look at our future in Portland and in Oregon where we expect three times the volume of traffic we have now within the next 15 to 20 years, to slam the door on that opportunity would be a serious economic mistake.

Again, we would strongly urge opposition to any legislation of this sort. That concludes my remarks.

The CHAIRMAN. As you are aware, the Finance Committee has jurisdiction over imports. I was struck by your figure on the percentage increase. I began my service on that committee 10 years ago, and I recall then that trade was about 6 percent of our gross national product, and the projection was that with luck it could grow to 10 percent in a decade. Indeed, it has outstripped that.

Unless I miss my guess, assuming the world comes out of its recession, it is going to outstrip even what our most optimistic projections are now for the next decade. This assumes, and I am crossing my fingers, that our ports are able to handle it.

You and I are well aware that there is a great quantity of money that needs to be spent in our ports around the country, be it coal export or otherwise, if we are going to take advantage of the trade opportunities that exists. We can compete, but not without adequate port facilities.

Mr. ANDERSON. We expect to put in about $200 million in investments in our port alone, and it is small compared to a lot of other ports, and that doesn't count highways and other kinds of access investments required, or investment by private industry.

I think the other relevant factor is, if you look at our trade opportunities on the west coast and the cost of moving cargo by rail and other means across the country, our future is in international trade with the Far East more than it is, on any manufactured products we have coming out of the West, with the Midwest, or the Eastern United States. It is cheaper to move it across the ocean. Any protectionist move is going to hurt that opportunity.

The CHAIRMAN. Has either the Port of Portland, or the American Association of Port Authorities done any analysis nationwide of the effect of this legislation on jobs?

A number of others have, as you just heard from Dr. Rivlin. The United Automobile Workers Union has, and it comes to a different conclusion. Has the American Association of Port Authorities done an analysis?

Mr. BRINSON. Senator, we have taken a close look at the figures provided to you by the Acting Secretary of Transportation, Harold Trent, several months ago. We, too, checked the methodology and we found it to be valid.

Our analysis, though, has now extended to the investment that stands in jeopardy as a result of the portent of this legislation. We know, for example, that on the west coast there is in place now about 100 million dollars worth of facilities dedicated to handling automobile imports.

If we look at the portent of this legislation on ports, we see a dual impact. First of all, we stand to lose the business associated with the import of automobiles. Then if we get into any sort of retaliatory cycle, we stand to also lose the export business.

You have very correctly pointed out that our port system could stand very little of that at this point in time when we are trying to gear up and trying to get ourselves fiscally capable of providing the Nation with a port system that it is going to need in the early years of the next century. That is a very serious problem to us. We see this thing as a much bigger picture than simply a question about automobile imports.

We are convinced beyond any doubt that this would end up costing jobs in our industry, both direct jobs and jobs associated indirectly with the import of automobiles. We think that it would go far beyond that. If we got into the retaliatory actions that Dr. Rivlin has most recently mentioned, then the problems associated with our ports' business would be compounded.

The CHAIRMAN. What can we do to help the automobile manufacturing industry? They, indeed, are hurting.

When you look at it, I am not sure that it is imports that have hurt them that dramatically. They have had a tremendous fall-off in the sale of cars and a relatively slight increase in the total numbers of imports, which does not come anywhere close to equalling their fall-off. What can help them?

Mr. BRINSON. I sure have given that a great deal of thought. I, too, was in Japan about 30 days ago, and I was impressed by the relatively few number of U.S.-made cars that I saw on the streets of Tokyo. Senator, I was impressed by something else, too, and that is: They don't just drive small cars in Japan, they have some big cars, too. We don't see those on the streets of the United States, and the reason is that there is not a marketing demand for those particular cars.

The **Chairman**. You mean the big Japanese cars?

Mr. **Brinson**. Right.

The **Chairman**. Yes, I was surprised by that also. You would have thought that any big cars would have been Lincolns, Cadillacs or Mercedes, but there are a fair number of large Japanese-made cars.

Mr. **Brinson**. They are very prominent. Just looking at the situation, one must wonder why they have not brought those here to market them, and one must then conclude that they wouldn't sell very well in the U.S. market.

I think that it is fundamentally a factor of competition. Ultimately, perhaps this is overly simplistic, a steady decline of interest rates would be a real boost to the U.S. automobile industry at this point in time. I think that it is an economic question, and it is also one of competition.

In the sense of what it offers in fairplay and competitive spirit, S. 2300 seems to be, on the bottom line, very un-American. I think we can meet the competition. We certainly have proven it in the past.

In the same stroke of that statement, one must also recognize that we have tried this kind of an approach to solve these problems in the past, and they have not worked very well.

The **Chairman**. I agree.

Fellows, I have nothing more. Thank you.

[The statements follow:]

Statement of Lloyd Anderson, Executive Director, Port of Portland

My name is Lloyd Anderson, Executive Director of the Port of Portland. By way of background, I also serve as First Vice-Chairman of the American Association of Port Authorities, as President of the Institute of Transportation of the American Public Works Association and have served as Chairman of the Board for the National Waterways Conference. However, I am presenting testimony today only on behalf of the Port of Portland.

Very simply, the Port is opposed to passage of S. 2300 or H.R. 5133, the so-called Domestic Content legislation, or any variation that proposes significant trade protectionist actions. Portland's concern and opposition to this legislation stems from our recognition of the importance of international trade to our community, the Pacific Northwest, and to the country. Moreover, we believe this legislation will fail to create any net new jobs or maintain existing jobs in the U.S. auto industry—while sacrificing a portion of international trade that is a major job generator, payroll provider and economic stimulus in our community and throughout the country.

In stating my opposition, some may assume that I have little compassion for the plight of the American worker facing unemployment lines—not so. I am very concerned about jobs and employment; in fact, in Oregon one out of eight jobs is involved in trade and transportation related activities.

Some may assume because of my opposition that I have ignored the fact that there are trade difficulties between the U.S. and Japan—I have not done so. Trade is enormously important to this country—we thrive on it—we depend on it—we benefit from it. We at the same time support efforts to improve trade relations, reduce trade barriers and increase U.S. exports. Making U.S. goods more competitive on the world markets must become a top priority.

Some have argued this legislation is needed to "send a message." A "message" aimed at one of the United States' closest trading partners and allies—Japan—and the number one trading partner of Portland and of the Columbia/Snake River system.

But what is the "message?"

Let me state the "message" in Portland. Automobile imports have a significant bearing on the economy of the Portland region, Oregon, and the entire West Coast.

Longshoremen, truckers, railroads, car dealers, distributors, financial institutions, to name but a few, depend on jobs generated by this industry.

AUTO ECONOMIC IMPACT—PORTLAND

Economic impact research conducted by Economic Research Associates (of Los Angeles) in 1976 and later updated by the Port's Research Department to reflect 1980 dollars, shows that one direct job is created for every 234 cars that crosses the docks. (See Attachment A for 1976 study summary.) For every direct job created, 7.74 indirect jobs are in turn generated in the community.

Last year, 266,926 import autos crossed the Portland docks. Statewide that translates to almost 9,000 jobs (direct, indirect, induced) that are related to these import autos. Moreover, every auto unloaded in Portland injects approximately $200 of direct value added into the local economy. A recent economic impact study of the Port of Houston, conducted by Booz-Allen and Hamilton, Inc., also indicated about a $200 impact per auto. (For more detailed information see Attachments B and C.)

As you can see, I have reason to have concerns regarding this type of legislation. It will hurt my community. It will hurt the thousands of Oregon workers involved in this trade. Some might argue that what's good for Portland may not be good for the country; that Portlant is only being provincial on the subject. That line of reasoning is inaccurate; this legislation is a threat to our nation's economic well-being in the future, as well as Portland's.

U.S. TRADE

Presently, the U.S. exports nearly $345 billion in goods and services (1981 figures). As I understand it, that represents about 12 percent of the gross national product and this figure is twice as large as it was ten years ago. When you include all goods and services, the U.S. enjoyed a $4 billion surplus in trade, as compared to a deficit of $14 billion in 1979.

More specifically, with Japan the U.S. enjoys some $60 billion worth of trade, both import and export. We are the agricultural products supplier for Japan, and they buy freely—twice as much as our second largest trading partner. Some $6.5 billion worth of agricultural products were purchased and consumed by Japan in 1980.

PORTLAND TRADE

For Portland, that translates into 4.3 million tons of import and export cargo with Japan alone—or a $3.3-billion trade relationship. Historically, more than one-third of all ocean-going commerce in Portland has been with Japan. Also historically, from Portland and Oregon, U.S. exports in dollar values have exceeded Japanese imports.

Just as you should not decide this issue on the basis alone of what's good for Portland, you should not decide it based alone on what is perceived to be good for the auto industry. The issue before you is not confined to the auto industry, but affects the future international trade opportunities for farmers, manufacturers, the service industry and ports. This Congress has taken steps to promote exports with the passage of other legislation. It would be ironic and tragic if this Congress now took steps, through the passage of domestic content legislation, that would have the clear potential of closing opportunities for those export industries with a future.

Moreover, we do not believe this kind of legislation addresses the critical issues facing the U.S. auto industry to become competitive again; we do not see its positive impact on the interest rates, the value of the dollar on the world market, the modernization needs of the auto industry or the need for responsiveness of the U.S. auto industry to the consumer markets in the U.S.

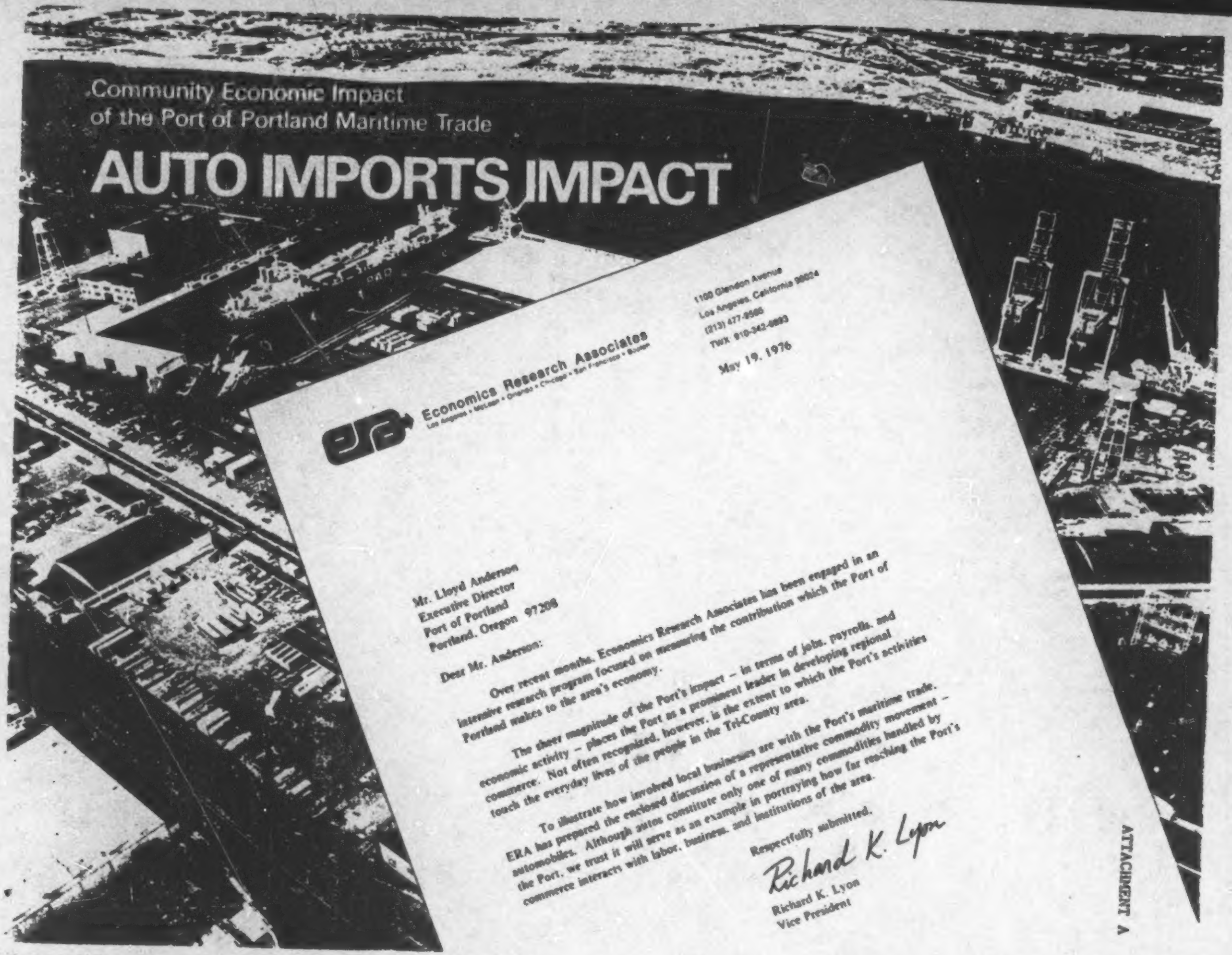
Call the legislation what it is, protectionist legislation that has the prospects of spurring on reciprocal actions and heightening emotional actions throughout the world. As at least one news commentator has said of the domestic content proposal, it's "an old style response in a whole new economy."

We must recognize that, despite trade frictions that we have with Japan and other countries, our country has benefited from international trade. If the U.S. wants to send a "message" to Japan to ease trade barriers and access by U.S. goods to Japanese markets, I submit that the Congress has already done so by the deliberations this Committee and others have had to date. The "message" is clear. Now is the time to move on to more productive ways of solving our differences.

Go to the bargaining table—press hard for change. Use and enforce remedies already in place in the several trade and tariff forums, formal and informal. But work out our differences as you would work out your differences with any long-time friend.

I appreciate the opportunity to present the concerns of the Port on this issue and would be glad to answer questions or provide the Committee with additional detailed information on the economic impact of this legislation on Portland.

ATTACHMENT A



Community Economic Impact
of the Port of Portland Maritime Trade

AUTO IMPORTS IMPACT

Economics Research Associates
Los Angeles • McLean • Orlando • Chicago • San Francisco • Boston

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May 19, 1976

Mr. Lloyd Anderson
Executive Director
Port of Portland
Portland, Oregon 97208

Dear Mr. Anderson:

Over recent months, Economics Research Associates has been engaged in an intensive research program focused on measuring the contribution which the Port of Portland makes to the area's economy.

The sheer magnitude of the Port's impact – in terms of jobs, payrolls, and economic activity – places the Port as a prominent leader in developing regional commerce. Not often recognized, however, is the extent to which the Port's activities touch the everyday lives of the people in the Tri-County area.

To illustrate how involved local businesses are with the Port's maritime trade, ERA has prepared the enclosed discussion of a representative commodity movement – automobiles. Although autos constitute only one of many commodities handled by the Port, we trust it will serve as an example in portraying how far reaching the Port's commerce interacts with labor, business, and institutions of the area.

Respectfully submitted,

Richard K. Lyon

Richard K. Lyon
Vice President

The Automobile Chain

The Port of Portland is continually investing to develop a modern expanding port capable of handling cargoes in an efficient and proper way. This investment also enhances the Port's competitive stance with other ports, thereby assisting to preserve the thousands of port-related jobs and helping to generate new jobs.

It is the purpose of this brief note to discuss one such investment, namely that in the Auto Facility at Terminal 4 (T-4). In order to convey who is impacted by this investment, this presentation focuses on describing what is and who are involved in importing automobiles through Portland.

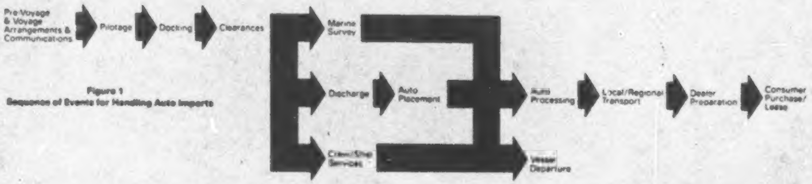


Figure 1
Sequence of Events for Handling Auto Imports

The Auto Facility

Today, the Port of Portland has a modern, well-utilized automobile import facility. This facility covers some 45 acres of waterfront property and consists primarily of a large paved and lighted parking lot for the temporary holding of about 9,000 vehicles—automobiles, vans, and trucks. An integral part of the Auto Facility is the ship interface. Vessels—mostly specialized auto carriers—arrive at either of Berths 416 and 417. These berths are not typical berths; they are floating ship hulls which connect to land by ramps. What is particularly important (and imaginative) is that the auto carriers arrive and tie-up to the floating berths, the surfaces of which are always at the same elevation above water. Thus, the auto carriers, often using special ship ramps that cannot be inclined too steeply, can discharge their vehicles onto the floating hull, regardless of the river elevation. And the long ramp to shore have been designed to handle the range of river elevations so as to keep the ramp incline within operable limits.

The Chain of Events

Many events occur in the movement of vehicles through the port. The principal activities and their sequence are shown in Figure 1.

Considerable activity takes place prior to a shipment of autos arriving at T-4. Many pre-voyage and voyage arrangements must be accomplished. The shipper and consignee must reach agreement on the number and kind of vehicles to be shipped, the steamship lines must be retained, and on and on.

A key element in this process is the steamship lines agent in Portland. The agent generally is the party who makes all of the receiving arrangements. A typical sequence of steamship agent communications for a shipment of automobiles might go as follows (the vessel may be transporting 1,000 vehicles for discharge at the Port of Portland):

- A vessel departs Japan and a message is sent to the steamship agent regarding the expected time of arrive (ETA).
- The Columbia River Pilots are notified of the ETA; Columbia River Pilots, in turn, notify the Columbia Bar Pilots.
- A tug company is contacted to arrange for tug service to a berth at T-4.
- The Portland Lines Bureau is contacted to arrange for the linesmen (longshoremen) for tie-up and let-go services.
- The agent calls a stevedoring company and notifies them of the ship schedule, ship type, number of vehicles, and how many men (gangs) will be needed. This shipment might require the order of 45 men to discharge the vessel, permitting the vessel turn-around in less than 24 hours and may be as few as 5-10 hours.
- The agent arranges for the hiring of a longshoreman—a supercargo who acts as liaison between the agent and the stevedores (he also handles much of the dockside paperwork).
- The Merchants Exchange (Portland), which operates as a clearinghouse for information, is notified, e.g., the Exchange stays in touch with U.S. officials (Coast Guard, customs, immigration, agriculture) regarding the ship's progress.
- A customs broker is retained to handle all the government import documentation.
- Marine survey services (for pre-discharge, discharge and first place of rest damage inspections and estimates) are arranged.
- The agent arranges for spotting/positioning of the vehicles at the Auto Facility in conjunction with the Port which provides receiving functions for the steamship lines.
- Twenty-four hour notice to the U.S. Coast Guard of the vessel's ETA at the Columbia River Lightship is provided.
- The Port of Portland is informed of vessel's ETA and port time.

Following all of the above arrangements, these actual events take place:

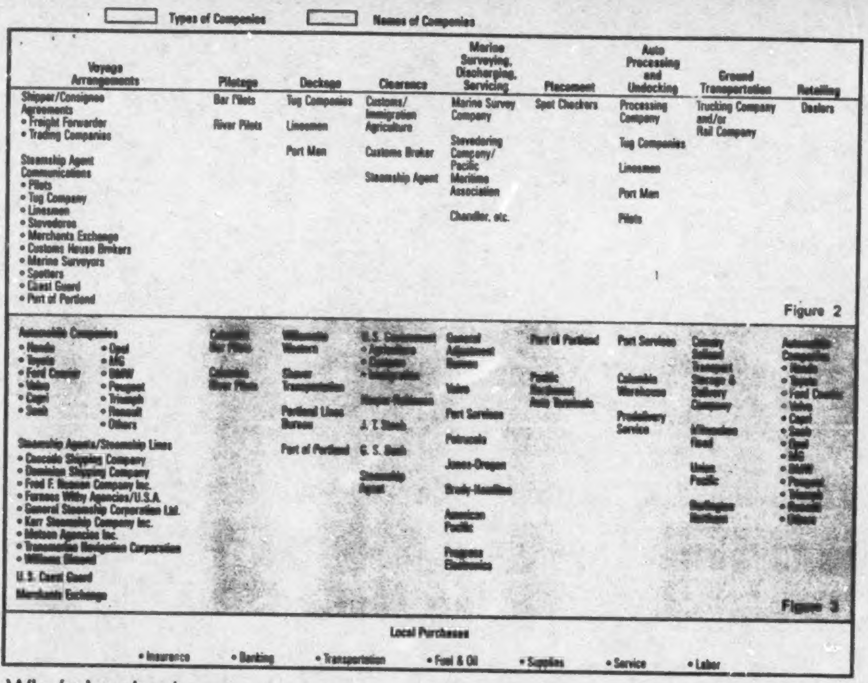
- Pilotage
- Dockage
- Clearance
- Marine Survey
- Vessel Discharging
- Vessel/Crew Servicing
- Auto Placement
- Undocking and Pilotage
- Auto Processing
- Dealer Delivery
- Dealer [illegible]paration and Sales

As noted earlier, prior to the vessel's arrival, many communications are made in preparation for the arrival. Two important notifications by the agent are to the U.S. Coast Guard and the Merchants Exchange.

When the vessel arrives at the mouth of the Columbia River, it is boarded by a bar pilot (ship captain), a member of the Columbia Bar Pilots, who aids in navigating the vessel through the bar. The bar pilot is then replaced in Astoria by a river pilot, a member of the Columbia River Pilots, who aids in navigating the vessel up river to port.

Once in the Portland area, either Willamette Western or Shaver Transportation supplies tug escort service to a docking at either Berth 416 or 417 at Terminal 4, the Auto Facility.* To also assist in the docking and tie-up of the vessel are linesmen (longshoremen) from the Portland Lines Bureau, and a man from the Port.

The vessel is then boarded by U.S. officials for customs/immigration and agricultural clearances, which is aided by the customs broker. Portland area customs brokers include such firms as Harper Robinson & Co., J. T. Steep & Co. Inc., and George S. Bush & Co. Inc. The customs broker will have prepared all necessary paperwork to expedite the clearance procedures. The steamship agent is on hand to handle any pressing needs of the vessel or its crew.



▭ Types of Companies ▭ Names of Companies

Voyage Arrangements	Pilotage	Dockage	Clearance	Marine Surveying, Discharging, Servicing	Placement	Auto Processing and Undocking	Ground Transportation	Retailing
Shipper/Consignee Agreements • Freight Forwarder • Trading Companies	Bar Pilots River Pilots	Tug Companies Linesmen Port Man	Customs/ Immigration Agriculture Customs Broker Steamship Agent	Marine Survey Company Stevedoring Company/ Pacific Maritime Association Chandler, etc.	Spot Checkers	Processing Company Tug Companies Linesmen Port Man Pilots	Trucking Company and/or Rail Company	Dealers
Steamship Agent Communications • Pilots • Tug Company • Linesmen • Stevedores • Merchants Exchange • Customs House Brokers • Marine Surveyors • Spotters • Coast Guard • Port of Portland								

Figure 2

Automobile Companies • Honda • Opel • Toyota • MG • Ford Courier • BMW • Volvo • Peugeot • Capri • Triumph • Saab • Renault • Others	Columbia Bar Pilots Columbia River Pilots	Willamette Western Shaver Transportation Portland Lines Bureau Port of Portland	U.S. Government • Agriculture • Customs • Immigration Harper Robinson J. T. Steep G. S. Bush Steamship Agent	General Adjustment Bureau Volvo Port Services [illegible] Jones-Oregon Brady-Hamilton American Pacific Progress Electronics	Port of Portland Pacific Northwest Auto Terminals	Port Services Columbia Warehouse Predelivery Service	Convoy [illegible] Transport Storage & Delivery Company Milwaukee Road Union Pacific Burlington Northern	Automobile Companies • Honda • Toyota • Ford Courier • Volvo • Capri • Saab • Opel • MG • BMW • Peugeot • Triumph • Renault • Others
Steamship Agents/Steamship Lines • Cascade Shipping Company • Dominion Shipping Company • Fred F. Noonan Company Inc. • Furness Withy Agencies/U.S.A. • General Steamship Corporation Ltd. • Kerr Steamship Company Inc. • Matson Agencies Inc. • Transmarine Navigation Corporation • Williams Dimond U.S. Coast Guard Merchants Exchange								

Figure 3

Local Purchases

• Insurance • Banking • Transportation • Fuel & Oil • Supplies • Service • Labor

Who's Involved

The foregoing discussion spoke to the types of events that occur with the importation of vehicles through the Port of Portland. But what are the types and names of companies in the Tri-County area who are involved in the chain of activities? Paralleling this discussion are two accompanying exhibits (Figures 2 and 3) which delineate the types and names of companies involved.

First are the automobile manufacturers and the auto dealers. Some 20 auto makes are imported through the port. These include such makes as Honda, Toyota, Ford Courier, Volvo, Capri, Saab, Opel, MG, BMW, Peugeot, Triumph, and Renault, among others.

Second are the steamship lines and/or agent. The principal agents in the importation of autos are Cascade Shipping Co., Dominion Shipping Co., Fred F. Noonan Co. Inc., Furness Withy Agencies/USA, General Steamship Corporation Ltd., Kerr Steamship Co. Inc., Matson Agencies Inc., Transmarine Navigation Corp., and Williams, Dimond.

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*On occasion, other berths at T-4 may be used for vessel tie-up and discharge.

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With clearance procedures accomplished the marine surveyor would board the vessel for automobile damage inspection. The condition of each vehicle is documented prior to discharge. The active marine survey firms are General Adjustment Bureau (Intermodal Transportation Services), Petrucela & Co. (for Opels), Volvo and Port Services (BMW's).

The vehicles are then discharged by a stevedoring company, either Jones Oregon Stevedoring Co. or Brady-Hamilton Stevedore Co. (the longshoremen engaged in this activity are retained by the stevedoring company through the Pacific Maritime Association).

Meanwhile the agent services the vessel and crew for their needs—water, fuel, laundry services, repairs, ship stores, shopping, etc.—which may include a ship chandler such as American Pacific or electronics repair services by a firm such as Progress Electronics.

As the vehicles are discharged from the vessel they are positioned at the Auto Facility by spot checkers, a service provided by the Port of Portland or Pacific Northwest Auto Terminals.

When the ship is fully discharged, the vessel is undocked and tug-escorted and pilot-assisted for its departure to the ocean.

The vehicles at the Auto Facility are then resurveyed for damage; the survey at pre-, during and post-discharge allows for liability of any damage to be determined.

The vehicles are then transported to one of three auto processing firms for cleaning, customizing and preparation. These firms are Port Services, Columbia Warehouse and Predelivery Services Company. The first two are located contiguous to the Auto Facility and the PSC (a Ford Motor Co. company for servicing Couriers and Capris) is located at the Tigard area.

After the vehicles have been prepared for delivery to dealers, they are loaded on trucks or rail cars for delivery to local dealers or dealers throughout the Pacific Northwest and some to distant points within the U.S. The active trucking companies are Convoy, Selland and Transport Storage and Delivery. The rail companies are the Milwaukee Road, Union Pacific and Burlington Northern. The dealers perform final preparations and lease or sell their vehicles to the public.

In addition to the above companies, many other companies are engaged in supplying services to the importation process—these include local banking and insurance companies, clothing stores, markets, other retail stores, and many more.

A Typical Shipment

To complete the picture with the specific detail of a given shipment of vehicles, a typical Toyota shipment is presented. The accompanying exhibit (Figure 4) displays who is involved in a typical Toyota shipment.

What does this mean to the Portland area?

Well, prior to the Auto Facility, automobile imports through the Port's marine terminals were rather small in number. And when vehicles did arrive they were usually handled by the laborious lift-on/lift-off means of handling general cargoes. Today, the number of vehicles entering the Port of Portland is on the order of 60,000-70,000 units per year. At a direct impact to the Portland area of some $120 per unit, this translates into about $8 million annually to local businesses (without counting the ripple effects of spending that income in the community).

Figure 4

Voyage Arrangements	Pilotage	Dockage	Clearance	Marine Surveying, Discharging, Servicing	Placement	Auto Processing and Undocking	Ground Transportation	Retailing
Matson Agencies	Columbia Bar Pilots	Willamette Western	U.S. Government • Agriculture • Customs • Immigration	General Adjustment Bureau	Pacific Northwest Auto Terminals	Port Services	Convoy	Toyota Dealers
NYK-Line	Columbia River Pilots	Portland Lines Bureau	Harper-Robinson	Jones-Oregon		Willamette Western	Union Pacific Burlington Northern	
U.S. Coast Guard		Port of Portland	Matson Agencies	American Pacific		Portland Lines Bureau		
Merchants Exchange						Port of Portland		
						River Pilots		
						Bar Pilots		

ATTACHMENT B

1979–80 economic impact of auto imports at Port of Portland Marine Terminals

Employment impact (number of jobs)—primary impact:	
Direct	1,088
Indirect	2,627
Total primary	3,715
Induced	4,718
Total impact	8,433
Value added impact—primary impact (in millions):	
Direct	$52.1
Indirect	34.5
Total primary	86.6
Induced	110.0
Total	195.9

The direct impact is created by the flow of dollars of the providers of marine services. Direct impact results from activities directly involved with cargo movement. The providers of these services include stevedores, bar and river pilots, tug boat operators, ship agents, customs brokers, berth agents, ship crews, ship suppliers, international banking staffs, trucking, rail and barge crews, and other providers of port services.

The indirect impact results largely from the flow of dollars by users of marine services. These incude firms which export, import, distribute, store, wholesale and retail international cargo. Governmental navigation services of the Corps of Engineers, the Coast Guard and the Fire Department are also included under indirect impact.

The induced impact results from the multiplier effect. It is larger than the primary impact because of the repeated spending which occurs. Due to the ripple effect, the induced impact tends to be diffused over a larger area; while direct impact is generally more concentrated in the local area.

Source: Derived from 1979 Tonnage and Economic Research Associates Study, 1976.

ATTACHMENT C

METHODOLOGY ECONOMIC IMPACT STUDY FOR PORT OF PORTLAND

The marine economic impact study and updates were developed by professional analysts. The initial work was done by a consulting firm, Economics Research Associates (ERA) of Los Angeles. ERA developed the initial study "Community Economic Impact of the Marine Terminals of the Port of Portland", May 1976.

In 1980 Port Research staff updated the economic impact data by using the per ton relationships developed by the consultant. The 1980 update applied per ton impacts to 1979 tonnage. To adjust for inflation, consumer price index data were also applied to value added and payroll. The employment and value added updates shown in Attachment B of the testimony were derived in this manner.

In the original study, the consultant grouped impacts by seven generic cargo classes. For each of these cargo classes direct and indirect impacts were developed. The cargo classes are: General cargo/breakbulk, containerized cargo, grain, autos, dry bulk, liquid bulk, and neo bulk (lumber/steel).

The development of economic impact studies follows basic principles. Conceptually, economic impact measures the economics worth of specific activities through a chain of impact benefits. Mathematically, the impact chain for the Port study is: direct + indirect = primary; primary + induced = total impact.

Direct Impact. For the number of employees, payroll and gross revenue, data were compiled for vessel disbursements, crew expenditures, marine insurance, international banking, inland transportation (rail, truck, barge), port services (professional services, export packing, crating, warehousing, container stuffing, automobile handling and service, customs brokers, and freight forwarders). These data were collected by personal, telephone, and mail surveys. In-house origin and destination statistics were also used to cross check the findings. After the gross revenue values were collected for direct impact, an input-output model of the State economy was used to determine the value added quantity which remained in the State.[1]

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[1] Donald A. Watson and Allen L. Roberts, Oregon Economic and Trade Structure, Bureau of Business and Economic Research, University of Oregon, Eugene, Oregon, 1969.

Indirect Impact. These data were collected through direct surveys and the use of secondary sources. Two major port user categories were developed: manufacturing and nonmanufacturing firms. From the 1972 U.S. Census of Manufacturers and Census of Wholesale Trade several ratios were developed. These included value added/value of shipments; payroll/value added and average salaries by industry to value of shipments by commodity group. These ratios were developed to make value added, payroll and employment estimates for the seven generic cargo categories. Since the indirect impact data were in value added quantities, it was not necessary to convert the values from gross revenues as was done in the direct impact.

In the case of the auto indirect impact, the measures developed were for the import auto retail dealers in Portland, the rest of Oregon and adjoining northwest states. These indirect impacts include only value added for such activities as new auto preparation, showroom use, retail storage, sales, etc.

Primary, Induced, and Total Impact. The direct and indirect impact values were summed to arrive at primary impact. After the primary impact was developed, the appropriate multiplier coefficient (from the input-output model) was applied to each cargo category to arrive at the induced impact. The multiplier coefficients used to develop the induced impact ranged from 2.12 to 2.51. The induced impact is larger than the primary impact because it represents repeated rounds of spending as benefits ripple through the economy. Finally, the total impact was derived by summing the primary and induced impact values.

Port Update. Extrapolating per tons values, the 1980 auto impact update showed employment impacts of about 1,000 direct jobs and direct value added of $52 million. In September 1982 Port Research staff conducted a limited telephone survey to determine the direct impact of import autos (calling just major employers). The survey of Portland metropolitan area import auto handlers, auto haulers, marine surveyors, river and bar pilots, linesmen, and tug and barge companies showed about 1,000 jobs with a payroll of $22 million. The limited phone survey results confirmed the 1980 update procedure was on target in terms of jobs and payment. Payroll normally represents about 40 to 50 percent of value added. Thus, a $22 million payroll coordinates with the $52 million for value added. During the period 1979 to 1981 Port of Portland automobile imports numbered 248,291, 266,578, and 266,926 respectively.

A recently completed economic impact study of the Port of Houston indicates import automobiles generated an economic impact of $193 per ton. The study states general cargoes, such as autos, have a high per ton impact because they are labor intensive. The Houston study, conducted by Booz-Allen and Hamilton, Inc., states the greatest impact on a per ton basis was automobiles. The Houston auto impact findings correspond to those in Portland.

STATEMENT OF J. RON BRINSON, PRESIDENT, AMERICAN ASSOCIATION OF PORT AUTHORITIES

Mr. Chairman, my name is J. Ron Brinson. I am the President of the American Association of Port Authorities. Founded in 1912 and headquartered in Washington, DC, AAPA represents virtually all U.S. port authorities as well as public port agencies in Canada, Central America, the Caribbean and South America. We welcome the opportunity to comment on S. 2300, legislation which would impose domestic content requirements on auto manufacturers selling more than 100,000 vehicles in the United States per model year.

The United States is as dependent today on international trade as it has ever been and in many ways more so. The value of foreign trade equals 24 percent of U.S. Gross National Product in 1981. The U.S. is the world's leading supplier of coal and agricultural commodities, and ranks with Germany and Japan as a leading exporter of manufactured products. At the same time, the U.S. is vitally dependent on overseas suppliers for iron ore, petroleum, manganese, bauxite, and other strategically essential raw materials. Imported manufactures, furthermore, contribute to the lifestyle Americans enjoy and ameliorate the effect of inflation by adding to the choice of goods available for purchase at home. This all translates into significant numbers of American jobs.

In 1980, for example, the export of manufactured products, according to the Bureau of the Census, accounted for 4.8 million U.S. jobs, an increase of 46.7 percent or 1.5 million jobs since 1977, (the last year a survey was made). Those 4.8 million jobs made up five percent of total civilian employment and six percent of private sector employment. Within the manufacturing sector itself, exports accounted for 13.7 percent of all jobs and 8.3 percent of all total shipments. Furthermore, for our farmers, exports account for approximately one quarter of all cash receipts. Between 10 and 13 percent of the coal produced in the United States is exported. Approximately one job is created for every 1,000 tons of coal shipped. In brief, the U.S. has a big stake in foreign trade, something that is particularly significant in these recessionary times.

More than 98 percent of U.S. overseas foreign trade by volume and approximately two-thirds of it by value moves in deepdraft oceangoing vessels, which necessarily depends on the services and facilities provided by the nation's seaports. The U.S. deepdraft port industry consists of 189 ports located on the Atlantic, Gulf and Pacific coasts and on the Great Lakes. In 1980, foreign cargoes handled at our ports amounted to 900.9 million tons valued at $297 billion. Since World War II, U.S. ports have invested billions of dollars in new and improved cargo handling facilities, including wharves, docks, transit sheds, storage areas, container yards, cranes and other equipment. From 1946 through 1978, non-federal U.S. seaport entities invested $4,864 billion in landside infrastructure. For the 1973–78 period alone, investment amounted to $1.68 billion. Today, the industry can offer 1,456 marine terminals, including 2,939 deepdraft berths. The cash value of these marine terminals is estimated to be $40.4 billion, and their replacement cost at approximately $54 billion. Moreover, the U.S. port industry directly and indirectly provides jobs for more than one million persons, generates $66 billion in dollar income, with federal, state and local tax revenues totaling some $10 billion.

We believe that open trade policies have contributed significantly to the prosperity of the United States and the rest of the world. Furthermore, we contend that artificial barriers to commerce between nations impede national growth by reducing the challenge of competition which spurs productivity and innovation. The restrictive trade actions of our foreign trading partners have been the target of continuing protest by the U.S. government. Similarly restrictive actions, if adopted here, would only undercut the negate these efforts by our government to remove foreign restrictions on U.S. commodities. Sound economic policy, we believe, should rest on the principle of fair trade. S. 2300 is inconsistent with this goal, contradicts economic logic and ignores bitter experiences in the past.

S. 2300 has been labeled a "jobs" bill. While it might indeed provide some short-term relief to our hard-pressed automobile workers, in general it would defeat its overall purpose. Jobs created in the automobile industry would be more than offset by job losses in other sectors of our economy. in fact, the Congressional Budget Office concludes that the net result could be a loss of 150,000 jobs.

What that could mean for ports where imported automobiles are processed was summarized by Deputy Secretary of Transportation Darrell Trent in a letter to the Honorable John D. Dingell (D-MI), Chairman of the House Committee on Energy and Commerce. Secretary Trent wrote:

"Unemployment in the nation's ports would result from the loss of 1.9 to 2.9 million automobile imports. We anticipate that 7,600 to 11,600 direct jobs would be lost and 53,200 to 81,200 indirect jobs would be in jeopardy at 14 ports on the East, West and Gulf Coasts. These ports and potential job losses are: Boston (900–1,300 jobs); New York (7,700–11,700 jobs); Baltimore (6,500–9,900 jobs); Hampton Roads (2,200–3,400 jobs); Savannah (500–700 jobs); Jacksonville (6,000–9,400 jobs); Tampa (900–1,300 jobs); Houston (4,200–6,400 jobs); Long Beach (6,200–9,400 jobs); Los Angeles (6,600–9,200 jobs); San Francisco (500–700 jobs); Oakland (1,000–1,600 jobs); Portland (4,900–7,500 jobs); and Seattle (4,500–7,000 jobs)."

Moreover this legislation is likely to invite retaliatory action against U.S. exports by our major trading partners. Trade wars produce only losers on both sides with traumatic effects on national economies. With U.S. unemployment now exceeding 10 percent, this is something the United States can ill-afford.

Many years ago, with the onset of the Great Depression, the major industrial nations, including the United States, attempted to bolster their faltering economies by erecting tariff walls and other barriers to trade. That proved to be no solution at all. In fact, as most economists agree, these antitrade policies not only failed in their purpose but in many ways actually contributed to the economic collapse and resulting depression. Shutting ourselves off from the world market at a time when the U.S. economy is weak and stumbling will only invite greater adversity. We believe that the best interests of the United States would be better served by adhering to fair trade policies based on "open" concepts. S. 2300 and its counterpart, H.R. 5133, are ill-conceived and potentially self-destructive. We urge Congress to reject them.

AAPA's views are set forth in a resolution adopted by its U.S. Legislative Policy Council last June. A copy of that resolution is attached herewith.

A RESOLUTION OPPOSING THE ENACTMENT OF H.R. 5133/S. 2300—BILLS TO IMPOSE DOMESTIC CONTENT REQUIREMENTS ON AUTO IMPORTERS AND TO RESTRICT AUTO IMPORTS

Whereas, the American Association of Port Authorities, founded in 1912, represents the public port authorities of the United States; and

Whereas, these public port authorities have provided the initiative in developing a superior port system for the United States, the shoreside cargo handling facilities and infrastructure of which is valued in excess of $50 billion; and

Whereas, the Association recognizes that the United States is vitally dependent on the flow of international trade, both imports and exports, and that 98 percent of the volume of such trade moves via water carriage and is thus dependent on the port system; and

Whereas, the Association has, for many years, maintained a position supporting open international trade policies and continues to hold that barrier-free trade serves the best economic and national defense interests of the United States; and

Whereas, the Association's United States Legislative Policy Council has carefully considered H.R. 5133 and S. 2300, proposed legislation which would impose domestic content requirements on importers of automobiles, and further, would serve to restrict the imports of automobiles, the Association now concludes:

1. Open trade policies have made a significant contribution to the property of the United States and the nations of the world; and
2. Artificial barrier to commerce between nations impede national growth by reducing the challenge of competition which spurs productivity and innovation; and
3. Domestic content requirements restrict the free flow of commerce, violate international trade agreements and tend to increase costs to consumers; and
4. The "Fair Practices in Automotive Products Act" (H.R. 5133 and S. 2300) introduced in the Congress would impose domestic content requirements on auto manufacturers which sell more than 100,000 vehicles in the United States per each model year; and
5. Such legislation would have the same effect as mandated quotas, severely restricting the number of auto imports into the United States; and
6. Independent studies have shown that one direct port job and seven indirect jobs in the port region are related to every 234 autos that cross U.S. docks, and that auto imports contribute hundreds of millions of dollars to the economy of the U.S. ports and surrounding regions; and
7. Pending domestic content legislation could invite retaliation against U.S. exports and could engender adverse impacts upon U.S. ports; and
8. The effect of this proposed legislation—and the trade war it could provoke—could seriously jeopardize the more than one million port-related jobs in the U.S., the more than $30 billion contribution of U.S. ports to the GPN (1977 figure) and a significant portion of U.S. port facility investments made by the public authorities; now therefore, be it

Resolved, That the American Association of Port Authorities opposes pending automobile domestic content legislation and will work for its defeat.

The **CHAIRMAN**. Ambassador Brock still has not come, so we will start with our next witness, Mr. V. J. Adduci, president and chief executive officer of the Motor Vehicle Manufacturers Association.

STATEMENT OF V. J. ADDUCI, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MOTOR VEHICLE MANUFACTURERS ASSOCIATION OF THE UNITED STATES, ACCOMPANIED BY ROBERT WATKINS, DIRECTOR OF INTERNATIONAL AFFAIRS

Mr. **ADDUCI**. Good morning, Mr. Chairman.

The **CHAIRMAN**. Go right ahead, sir.

Mr. **ADDUCI**. My name is V. J. Adduci, and I am the president and chief executive officer of the Motor Vehicle Manufacturers Association of the United States. I am accompanied by Mr. Robert Watkins, who is director of international affairs for MVMA.

MVMA is a trade association representing the domestic manufacturers of passenger cars, trucks, and buses. Our 11 members account for over 99 percent of the motor vehicles produced in the

United States. They are: American Motors Corp., Checker Motors Corp., Chrysler Corp., Ford Motor Co., General Motors Corp., International Harvester Co., Mack Trucks, Inc., M.A.N. Truck & Bus Corp., Paccar Inc., Volkswagen of America, Inc., and Volvo North America Corp.

I am pleased to be here this morning to comment on S. 2300, the proposed Fair Practices in Automotive Products Act. My comments reflect the views of all our member companies, except the Chrysler Corp.

In addition to my brief comments, I am submitting for the record copies of the prepared statements of the American Motors Corp., Ford Motor Co., General Motors Corp., and Volkswagen of America, Inc., as submitted this past September to the Trade Subcommittee of the House Ways and Means Committee. These statements may be helpful to this committee.

Concern over the future of motor vehicle production in the United States has led some to favor legislation that would require all manufacturers holding a significant share of the U.S. automobile and light truck market to utilize specified levels of domestic content. This concern about the future of the U.S. motor vehicle industry exists because of the severity of the downturn in motor vehicle sales which has gripped the U.S. market since early 1979.

Despite these conditions, U.S. motor vehicle manufacturers are committed to substantial efforts aimed at being fully competitive and participating fully in the future of the U.S. motor vehicle market. A recent U.S. Government report estimates that domestic motor vehicle manufacturers will spend some $65 billion from 1978 through 1985 for investment in new products and production facilities, and that approximately half of this investment program has now been completed.

Much of this investment is going into product design and engineering programs to produce the new generations of technologically advanced, high quality, fuel efficient motor vehicles. Great strides have already been made.

Other major portions of this investment are being utilized to construct or modernize manufacturing facilities incorporating the most advanced production processes and equipment. To obtain the massive amount of capital needed to meet these product, productivity, and quality objectives, each manufacturer has had to take extraordinary actions to reduce costs.

It is in this context that we address the legislative proposal to mandate specified levels of domestic content. First, we are sensitive to and understand the anxieties and uncertainties about employment—now and in the future—that are major factors contributing to interest in this bill. Government certainly has a proper and essential role in devising policies to promote economic growth and prosperity, and to ameliorate serious economic dislocations such as we are currently experiencing in our industry.

Second, the U.S. motor vehicle manufacturers believe that it is good business practice to invest capital, create jobs, and otherwise contribute to the economy of the markets in which they sell. In the case of the United States, achieving optimal economies of scale in automotive production is clearly not a limitation in either vehicle assembly or component manufacture. Nor are such activities limited by other factors such as the availability of skilled labor, technology, energy, or capital; in fact, the United States is well endowed in each of these factors of production. In addition, production in the United States affords better response by vehicle suppliers to consumer demands for timely delivery and wider choice of specific models, and of design and equipment variations. These factors should encourage major automotive manufacturers and suppliers to produce in the United States, thereby providing jobs, paying taxes, and supporting the Nation's economy.

Traditionally, U.S. vehicle manufacturers have produced in the United States an overwhelmingly large proportion of the vehicles they sell here. In recent years, several major European motor vehicle producers have decided to invest in U.S. production facilities—Volkswagen, Renault, Daimler-Benz, Volvo, and M.A.N. Japanese manufacturers have been more reluctant to invest here, although Honda recently began producing passenger cars in its Ohio plant, and Nissan is building a light truck plant in Tennessee. A more ambitious and accelerated strategy for investment in significant manufacturing facilities in the United States by Japanese motor vehicle producers could substantially diminish the stimulus for this type of legislative proposal. Clearly, voluntary responses to the——

The **Chairman**. I am going to have to ask you to abbreviate your testimony. As you know, we are operating with our witnesses under the 5-minute rule.

Mr. **Adduci**. Yes; I suppose, then, we ought to talk about what would be appropriate alternatives to this legislation.

First, the greatest single contribution that the United States can make to strengthen the competitiveness of the U.S. automotive industry is to formulate policies that will lead to a stronger and more stable economy. This will involve an ongoing effort to reduce the Federal deficit through further reductions in Government spending, while applying the most appropriate mix of fiscal and monetary policies that will successfully keep both inflation and interest rates on a downward trend.

Second, the U.S. Government should encourage significant, economically viable Japanese automotive investment in the United States. The need for such investment has already been publicly endorsed by the Japanese Government.

Third, the Japanese Government's voluntary automotive export restraint program should be continued. I hope that they will continue that. When the Japanese Government announced the establishment of the program in May, 1981, it reflected an awareness of the problems caused by its position in the U.S. automotive market, and the attendant to strength of protectionist sentiment. Unfortunately, conditions are no better today, Mr. Chairman. By some measures, they are considerably worse.

Fourth, both the United States and Japanese Governments must take action to address the short- and long-term factors which determine exchange rates in order to eliminate the present distortion in the yen/dollar relationship. The current rate of exchange gives Japanese producers an enormous advantage in the U.S. market. The yen has depreciated since 1980 from about 200 to the dollar to the 245 level at present—and it has been as weak as 278 in recent weeks. While U.S. producers are trying to close the cost gap between United States and Japanese built cars, the disequilibrium between the yen and the dollar gives Japan a cost advantage that cannot be overcome by actions taken by U.S. producers alone.

These steps, if successfully implemented, should reduce the pressure for domestic content legislation. Accordingly, MVMA urges the Congress and the administration to address these four priority issues in as timely a manner as possible.

Finally, while there is increasing controversy over United States/Japanese automotive trade, concepts such as domestic content requirements raise serious questions regarding the feasibility of implementing them, the possible adverse impacts on U.S. producers and consumers, and the broader ramifications for U.S. international competitiveness and the structure of the world trading system.

QUESTIONS OF THE COMMITTEE AND THE ANSWERS THERETO

Question 1. Do you believe the major U.S. auto producers would be able to successfully comply with the domestic content requirements of S. 2300?

Answer. At present, well over 90 percent of the total value of the combined fleet of all U.S. and Canadian manufactured vehicles (as measured by procedures established by the Energy Policy and Conservation Act) is procured from sources in the United States and Canada—mainly in the United States. We cannot speak to future product strategies of the various manufacturers.

Question 2. How do you believe foreign companies who manufacture automobiles in the U.S. or are considering doing so would react to S. 2300?

Answer. We do not believe it appropriate for us to conjecture about the future actions of foreign companies.

Question 3. What impact would domestic content legislation have on the "world car strategy" now being employed by U.S. automobile manufacturers? Would U.S. manufacturers be forced to abandon this strategy in order to meet domestic content requirements?

Answer. No standard definition for the "world car strategy" exists within the domestic motor vehicle industry and it is misleading as well as mistaken to believe that each manufacturer is pursuing the same strategy. The pressures of an external environment characterized by worldwide recession, persistent inflation, uncertain energy markets, and intense international competition, have caused all U.S. motor vehicle manufacturers to devise new approaches to remain economically viable.

Most of the elements that are often included in the "world car strategy" with respect to U.S. producers are simply the logical extension beyond our national boundaries of the intense efforts by all U.S. vehicle producers to reduce costs and improve productivity. It makes economic sense to coordinate and focus a corporation's worldwide managerial and technical talent to accomplish common objectives; to utilize common designs and engineering concepts in the production of the largest number of vehicles possible; and to take full advantage of the savings from producing vehicles and components at the optimum scale of production.

U.S. government policies that inhibit selective import strategies, component sourcing flexibility and other adaptive responses of domestic producers to the intense pressures of international competition, will result in competitive disadvantage. This is particularly the case when these policies are more inhibiting to domestic producers than to foreign ones.

Question 4. It has been alleged that Japan maintains a closed market to automobile imports. Have the U.S. auto manufacturers ever made a serious effort to sell cars to Japan? If so, what has been the outcome? Does Japan have any import restrictions which apply solely to American automobiles?

Answer. In the period 1952–1970, the Japanese home market expanded from 50,000 units to over 4 million. During that time, the Japanese market was closed to both significant imports and foreign investments. Thus during this initial growth period when establishing a market presence is crucial, U.S. producers were prohibited from such participation.

After the Japanese market was finally opened to auto imports and foreign investment, and for a long and sustained period since, U.S. auto producers have maintained an active sales effort in Japan. The success of this effort has, unfortunately, been very modest. U.S. auto exports to Japan peaked at close to 21,000 units in 1979 and have subsequently declined to a level of approximately 3,000 in 1982. Japanese government policies have impeded the full realization of U.S. producers' potential in Japan. The costly and time-consuming process by which U.S. producers must satisfy Japanese government officials that their vehicles comply with Japanese requirements is unnecessarily burdensome and contrasts markedly to the direct and efficient procedure by which all manufacturers, domestic and foreign, satisfy U.S. vehicle safety requirements. In addition, Japanese automotive taxes are assessed in a manner which further disadvantages imported vehicles vis-a-vis domestically produced ones.

We would note that no foreign manufacturers, not just U.S. ones, have been successful in the Japanese market. The market share for all imported passenger cars in Japan was a minuscule 1.3% in 1981.

Question 5. How would you characterize the respective impacts, domestic and foreign, of S. 2300, H.R. 5133 as reported, and H.R. 5133 as passed by the House? Do you continue to advocate "voluntary responses"—such as improving the state of the U.S. economy, continuation of the Japanese Government's voluntary automotive export restraint program, and encouragement of Japanese automotive investment in the U.S.—rather than enactment of domestic content legislation?

Answer. The question of a mandatory requirement is a very serious one. We much prefer voluntary responses, such as continued export restraints by the Japanese government and investment by Japanese producers in significant, economically viable manufacturing facilities in the United States, coupled with serious U.S. government attention to the dollar-yen issue and, of course, to economic recovery.

Question 6. You state in your testimony that the current exchange rate between the dollar and the yen gives Japanese manufacturers a significant cost advantage over American producers. Others assert, however, that economies of scale play a more important role in this regard. Why do you believe the exchange rate is responsible for the Japanese cost advantage? How important are economies of scale in this context?

Answer. There is no question that the value of the yen is a key factor in cost competitiveness. The undervaluation of the yen versus the dollar is giving Japanese producers a substantial unearned advantage on each vehicle sold against U.S. competition—here or abroad. Certainly, the basic cost equation has been exacerbated by U.S. producers operating well below capacity and Japanese producers at full capacity. Further, the undervaluation of the yen itself has contributed to Japan's advantage in operating at full capacity.

Question 7. What do you consider to be the primary causes of the U.S. auto industry's current problems? To what extent do you consider automobile imports to be a factor?

Answer. The industry's problem is sales volume—too little to support industry cash flow and to generate jobs. The industry's volume losses are attributable to imports, high interest rates, the economic recession, the burden of government regulation, and uncertainties regarding energy price and availability. To the extent that imports take away sales from domestic producers, the latter's ability to generate sufficient revenue to sustain their economic viability is substantially lessened, particularly during as severe a recession as we have been experiencing.

The **CHAIRMAN.** I apologize, but I have to call the proceedings to a halt.

I have to go to the floor. I have just been called there now to handle an amendment coming out of this committee, and I will have to recess the hearings until I finish it and get back. I hope I will not be long, but we must stand in recess until I get back.

[The statements follow:]

STATEMENT OF W. PAUL TIPPETT, JR., CHAIRMAN AND CHIEF EXECUTIVE OFFICER, AMERICAN MOTORS CORP.

Mr. Chairman and distinguished members of this subcommittee, Mr name is Paul Tippett and I am Chairman and Chief executive Officer of American Motors Corporation. AMC is the fourth-largest automotive manufacturer in the United States and ranks 155 in sales among the fortune 500 companies.

I am pleased to comment on the trade position of the U.S. auto industry because of American Motors' unique relationship with Renault, the french automaker. In 1979, we acquired the right to manufacture Renault-designed passenger cars in the United States. Just last week, the first of these vehicles, appropriately named the Alliance, went on sale.

In this era of economic interdependence, no major company should expect to participate in a foreign market if its only strategy is to sell products and take the profits home, without investing in the host country.

No responsible company should expect a long-term presence in a foreign market if it enjoys unfair political and economic advantages that are denied to the host country's own basic industries. The impact of such unfair advantages on our basic industries is all too evident in the foreign-made products that line our shelves and in the long unemployment lines in our cities.

When I speak of unfair advantages, I am referring primarily to one country—Japan. Japan is the only country to launch an attack on our basic industries as a matter of national policy. That attack and the failure of the Japanese to play by the same rules as the rest of the international business community are the basic reasons for this hearing today.

For ten years we have been deluged with articles and TV documentaries about Japanese workers who are happy to work for lower wages than their American counterparts and who stand by their machines to sing the company anthem. "Theory Z" is fashionable, and a whole cottage industry of self-styled Japan experts has sprung up to advise us.

The fact is that Japan's success in the U.S. market stems largely from differences in the political treatment of industrial growth and foreign trade, not differences in culture or management techniques.

In the United States and most of the other major exporting countries, each company is left on its own to come up with a competitive strategy. The governments involved largely confine their role to preserving competition and fair prices through antitrust laws and other regulations to prevent collusion.

In Japan, however, collusion is hardly rare. Many companies are encouraged to set production quotas, establish special supplier relationships and fix prices. Such collusion plus an alliance of government, manufacturing companies and the banking system have enabled the Japanese to adopt a targeted industry strategy unique in international trade.

I have personally seen this strategy at work now in three different industries—electronics, sewing machines and autos. The advantages provided by that strategy—not some of the mythical superiorities you've heard about—are what make the Japanese particularly tough in global markets.

The targeted industry strategy began at the end of World War II, when Japan's industrial base was in ruins. Certain basic industries with high export potential were identified and nurtured by the government. these included steel, automobiles and the then-infant electronics industry.

The targeted industries were nursed in a hothouse. At various stages, each industry benefited from special legislation and government decrees.

As early as 1949, for example, controls were placed on the importation of foreign automobiles. A so-called Temporary Measures Law was passed in 1956 to provide low-cost loans to the domestic automotive parts industry.

More recently, a law was enacted that allows the Japanese government to give Japanese electronics and machinery manufacturers every advantage it is able to muster. It allows companies to collude in setting production quotas, establishing supplier relationships and setting prices. Any American businessman engaging in similar practices, of course, would be breaking our laws.

Their laws also permit the government to fund massive R&D programs for the targeted industries and can exempt joint R&D projects from Japan's antitrust laws.

The Japanese government gets some of the money for such R&D funding from the fact that the United States picks up much of the cost of Japan's military defense. In other words, the U.S. taxpayers is indirectly subsidizing commercial R&D.

The Japanese government also provides accelerated depreciation and special tax credits for R&D. Tax reserves may be established for export sales.

In addition to aiding domestic industries, Japanese tax policy is used to keep our foreign competition. For example, a Japanese car exported to the United States is relieved of \$900 in Japanese taxes, but a U.S. car imported into Japan picks up a Japanese tax burden of \$1,100.

On top of this, there is the controlled exchange rate of the yen. It is estimated that Japanese automobile imports have a landed cost advantage of about \$1,500 over U.S.-built cars because of the yen exchange rate alone. Inflation in the United States has been far worse than in Japan, but this has not been reflected in the yen exchange rate. Most economists agree that if the yen had been allowed to strengthen to compensate for the disparity in the two countries' inflation rates, the yen exchange rate today would be in the range of 185 to the dollar. Instead, it is 265 to the dollar, forty percent lower than its fair value.

The case is often made that high U.S. interest rates are the reason for the undervalued yen. In the past year, however, the U.S. prime rate has declined from 21.5 percent to 13.5 percent; during the same period, the yen has not strenghtened but rather further depreciated. So you clearly cannot tie the yen's weakness to our interest rates.

The European community has brought a formal charge against Japan under GATT based on the yen's artificially low value and the continued protection of the Japanese market against European imports. The International Monetary Fund may also take action.

While the Japanese deserve full credit for their productivity and innovation, it is the political and currency advantages I've just described that create the environment for such achievements.

Today, our own survival depends on whether we can muster the same will and unity that the Japanese did almost four decades ago, when the current targeted industry strategy was born. We can no longer afford to preach the virtues of free trade while the Japanese violate those principles to beat us in our own market.

Some Japanese companies have recently displayed the kind of attitude that should be the norm. For example, a Japanese steelmaker has moved to pruchase controlling interest in Ford's steel operations and will produce some of its steel in this country. If the Japanese hadn't stepped in, 4,500 jobs would have been lost.

The voluntary import quota accepted by the Japanese government last year was another positive step—and it is essential that the agreement be kept in force through 1983, as originally intended.

That import quota alone, however, falls far short of offsetting the unfair advantages I've been describing.

We must ask ourselves: How long can any of our basic industries—not just the auto industry—continue competing against the Japanese if the Japanese are granted advantages not available in a free market?

I am not suggesting that the Congress legislate hothouse portection for the U.S auto industry. Rather, we must make it clear to the Japanese that the days when they could get a free lunch are over.

How do we put the Japanese on notice? It would be preferable, of course, if the Japanese would voluntarily move to make action by our government unnecessary. But I for one have given up on this possibility. The only thing they respond to is pressure.

Any pressure, however, must fairly balance the interests of the U.S. consumer, U.S. manufacturers and responsible foreign companies. In the case of the automobile industry, there are four separate points to be considered:

1. We must protect the American consumer's right to purchase a domestic or foreign vehicle. He should not be arbitrarily limited in the choice of products and should not be penalized by an artificially high price.

2. We must preserve the U.S. manufacturer's right to use the lowest-cost sources of materials and parts, including foreign sources, in order to remain economically competitive.

3. We must not punish responsible foreign manufacturers by adopting requirements so strict as to force them to pull up stakes and leave the U.S. market—or worse, cause their governments to retaliate.

4. We must give special consideration to Canada, the only country in the world that has a bilateral automotive trade agreement with us.

I do not have a simple proposal that will resolve the dilemma, but I believe the bill before you, HR 5133, fails to meet any of these four criteria. Its extreme requirements, especially the 90 percent content standard, could limit consumer choice, raise prices and unnecessarily restrict domestic and foreign manufacturers alike. In the end, it could make the U.S. auto industry less competitive internationally. In short, it might jeopardize rather than protect American jobs.

American Motors, however firmly supports the principle that manufacturers who participate in the U.S. market should provide jobs, pay taxes and support the nation's economy. This is the spirit behind Renault's alliance with American Motors and behind other European manufacturers' commitments to produce in this country.

The basic concept of local content itself is not incompatible with the four principles I've listed, if applied judiciously. A fair local content formula could be derived using a combination of more graduated local standards and tariffs.

Many workable combinations could be proposed. My purpose today is not to suggest a specific piece of legislation, but let me offer just one example of what might be done.

For foreign manufacturers importing less than 100,000 cars and light trucks a year into the U.S. market, no local content would be required and the current tariff of 2.8 percent on cars and 25 percent on light trucks would not be changed. For companies importing 100,000 to 200,000 units a year, 25 percent local content would be required. Above 200,000 units, 50 percent local content would be required.

If the foreign manufacturer could not meet the 25 percent local content level by 1985, we could allow him to continue importing up to 200,000 units. However, in lieu of local content, make him pay a duty of 10.6 percent on passenger vehicles—the same level now imposed by the Common Market countries. This would provide an incentive to achieve the local content requirement. Anyone wanting to import more than 200,000 units would have to meet the 50 percent local content requirement by 1986—no exceptions.

In practice, this formula would protect both U.S. and foreign manufacturers' freedom to use a broad range of suppliers from many countries—thereby assuring a low cost base—but at the same time assure that major importers made a contribution to our economy and tax base commensurate with the profits they earn here.

You've heard several arguments against any such action during the past week. None of them will hold water. Let me go through four of the major ones.

First, you've heard that it would spark a trade war.

So—who are we going to war with?

All other industrialized countries in the Free World have perceived the threat of unfair competition for what it is—a concerted attack on their basic industries. Those countries have acted accordingly. The Common Market members, for example, have a tariff on automobiles more than three times higher than ours.

In addition, most European countries have imposed import quotas targeted specifically at the Japanese. In France, Japanese automobiles are limited to three percent of the total domestic market. In the U.K., the quota is 10 percent, and in Italy it amounts to a flat 2,200 vehicles per year.

These measures clearly violate the spirit of GATT, but the Japanese have accepted them and continue to do business in Europe. If they can play on the Europeans' turf by the Europeans' rules, why shouldn't they do the same on our turf? That's all anyone in the automotive, steel, electronics or any other industry should get—a level playing field that still preserves the right of choice for the American consumer.

The Japanese surplus in trade with the United States last year was $16 billion, according to the U.S. Department of Commerce. This year it will probably exceed $20 billion. Are they going to war with us? Of course not. They are not about to stop trading because of tariffs or moderate local content requirements designed to ensure they provide at least some American jobs, and pay some American taxes.

So much for trade wars.

Second, you have heard it argued that any form of local content and higher tariffs would result in higher prices for the American consumer and would transfer income from consumers and exporters to auto workers. This would not be the case under a moderate formula such as I described.

In this country, the market—not quotas, tariffs or local content—determines the price for the consumer. The Japanese have had to pay a tariff of 25 percent on light trucks for nearly three years, and prices have not gone up abnormally. Interestingly, however, the value of the yen began to fall at about the time the tariff was raised, so Japanese profits did not suffer. Similarly, the voluntary quota on Japanese cars has had no significant impact on the price of cars in this country—contrary to what the doomsayers forecast when it was adopted. Pricing to consumers for the 1982 model year was well below the inflation rate and many 1983 model prices have actually come down.

Nor will the U.S. consumer pay for the capital required to build plants in this country—the Japanese will. To remain competitive in this country, they will accept those costs as part of the price of doing business, as do American manufacturers. And both consumers and exporters will benefit from the resulting generation of new jobs and fair trade in this country.

Third, it's been argued that local content would be a crutch for the U.S. automobile industry, allowing it to avoid the adjustments necessary to become competitive. Well, we've made adjustments and the U.S. auto industry is now competitive in product with everyone and in cost with every country except one—Japan. The principal reason the Japanese have a major cost edge is not that they are inherently more capable, productive or innovative but rather that they have the strategic and currency advantages I've talked about this morning.

Fourth, you've been told that any action would violate U.S. trade obligations and prevent a worldwide economic recovery. You've seen how our European partners view this risk. We also have an obligation to our trading partners as well as ourselves to preserve our basic industries. Without them, our economy simply cannot grow, and our trading partners will in turn suffer. I believe that giving our basic industries a fair chance against the Japanese is the first step toward global recovery. In other words, if our basic industries don't get healthy, there probably won't be a full recovery.

Secretary Baldridge admitted before this Committee last week that the vague promises obtained from the Japanese during 18 months of negotiations have not been matched with tangible changes in Japanese trade policy. As the Secretary noted, "Without a thoroughgoing change in (Japanese) private and public attitudes at all levels, real progress is far off."

I agree with the Secretary's observation. They have been slow-walking us to death. But the Japanese attitude won't change unless they receive a clear and strong signal that we are serious.

We can no longer afford the luxury of merely shaking our finger and lecturing the Japanese on the virtues of free trade as if they were an unruly pupil and we were the teacher. The Japanese graduated from the classroom to the real world long ago, and it is high time we did the same.

STATEMENT OF PHILIP CALDWELL, CHAIRMAN OF THE BOARD, FORD MOTOR CO.

Mr. Chairman, we've been asked for our views on automotive trade and for our perspectives on the legislation before this committee.

In preparing for this occasion, I was reminded of a couple of famous maxims. It was the late Speaker Sam Rayburn who used to tell members of this body—and sometimes even Presidents—"If you want to get along, you have to go along." And it was Benjamin Franklin who, in signing the Declaration of Independence, asserted the very same thought in even blunter language: "We must all hang together, or assuredly, we shall all hang separately."

I have been asked to discuss something that has been advanced as a single solution to the problem of a single industry. I honestly wish it were that simple. We happen to believe that the issue is bigger than that. The essential question confronting this subcommittee, the Congress, the White House—indeed confronting the nation—is the international competitiveness and the ultimate survival of major U.S. industries.

The need to solve this basic problem is of vital importance. The prosperity and security of America, the jobs of millions of American men and women—today and tomorrow—depend on how well the nation meets this challenge.

We are dealing, therefore, with something that is not just an automotive problem. Other industries and their workers are facing similar issues of international competitiveness. Unless government and the private sector go along together in fashioning proper responses, none of us will get along very well.

The issue is how best to enable American companies and American workers to compete more effectively in today's highly internationalized market, especially when that competition is titled in ways that benefit other countries more than our own and in ways that the private sector alone cannot deal with.

Highly efficient Japanese firms, for example, encouraged by a supportive government environment, have aggressively targeted one manufacturing sector after another. The assault stretches in a long line from textiles, cameras and televisions yesterday, to steel, motor vehicles and machine tools today, and on to semi-conductors, electronics, biotechnology and aircraft tomorrow.

So it's not simply an auto industry problem; something seems fundamentally wrong with America's ability to compete.

It may be worth noting also that this is not just an American problem. The same pressures are being felt in Europe, where governments already have strengthened their restrictions on Japanese imports, especially cars. Just recently the European Community has protested to the GATT in sweeping terms about the damage being caused by Japan's trade policies and the undervalued yen.

Increasingly, the American people—especially those whose jobs are at risk—are asking and expecting a meaningful response from both industry and government. Let me review briefly what is being done in the auto industry.

At a time when many others are not making capital investments, the auto industry is investing $80 billion to revolutionize the design, technology, and manufacturing of U.S. cars and trucks. This is the largest private sector effort ever undertaken anywhere. This commitment has been kept even though the industry is now in the fourth year of a recession.

At Ford Motor Company, these efforts reach to every product, every employee, and the very fundamentals of how we operate. We're moving in exciting new directions to give Ford product leadership in automotive electronics, aerodynamics, design, quality, and in overall efficiency.

The Ford Escort line, we're proud to say, is the best selling car in America and, with its European twin, the best selling car in the world. For 1983, here in America, we are bringing out eight new model lines at an investment of $3 billion, the greatest product effort in Ford's history. Furthermore, we are spending a greater share of our revenue for R&D than any of our major competitors, domestic or foreign.

These commitments to new products and plants for both the short and long term were made possible only because at the same time we have improved our efficiency and pared overhead costs to the bone—at savings of $3.5 billion a year compared with 1979.

Perhaps most important of all, Ford, working with the UAW, has developed a new and enthusiastic rapport between management and labor. This new spirit has already paid off in the quality of Ford cars, which has improved 48 percent in two years time.

Mr. Chairman, I invite you and the members of this committee to visit any Ford plant and sense for yourselves this new spirit of mutual support and dedication between management and labor.

But no matter how well we work together on the plant floor, the private sector cannot do it all alone. The Federal government, on behalf of the whole nation, must do its share in redressing the imbalances and the inequities in trade and jobs.

Thirty months ago, Ford testimony described for this subcommittee actions we in the domestic industry were undertaking to meet foreign competition and to preserve America's largest and most basic industry. We also suggested several areas where U.S. international economic policy could reinforce the progress gained from private initiatives: (1) short term import restraint; (2) differences in tax structures among major trading partners; and (3) the yen/dollar relationship.

The U.S. imbalance in auto trade and jobs is enormous. Automotive products alone accounted for $13 billion out of last year's $16 billion trade deficit with Japan. With expected recovery in U.S. auto demand, the auto deficit with Japan will reach $25 billion by the mid-1980's, even without an increase in Japanese market share.

So far this year, the market share of imported cars is at an all-time high of 28 percent. This occurred in spite of Japanese export restraint. The Japanese share of 23 percent this year is five points higher than anticipated when restraints were announced—because the protracted weakness of the economy in general and auto demand in particular has lasted so long. The toll on people has been very heavy—over 1 million have lost their jobs.

With less than a 2½ percent unemployment rate in Japan, compared with nearly 10 percent in the U.S., Japan surely must understand the reasonableness of continuing the present level of restraint announced in 1981. Initially, there was a conviction by many on the U.S. side that it ought to be for five years. Our government settled for three. It is most important that the Administration, encouraged by the Congress, show its resolve on this matter. For even though voluntary restraint has not been a perfect instrument, America's biggest industry would have been damaged even more—and thousands more jobs lost—without it.

And let me note that, despite dire forecasts, the evidence for the first year demonstrates that restraint had no significant impact on car prices, no significant limitations on buyer choice, and caused no unusual upgrading of Janpanese model mix. In sum, Mr. Chairman, America's consumers have not been hurt as the critics claimed they would be.

These critics seldom mention, by the way, what replacing a U.S.-built car with an import costs the U.S. taxpayer. We estimate that the combination of lost taxes—which would otherwise be paid by U.S. manufacturers and workers—and the various costs of subsistence for unemployed workers add up to about $2,500 for each import. One might question whether it's fair for taxpayers in general to, in effect, subidize buyers of improted cars.

We ought to remember that limiting Japanese car exports is hardly unique to America. Notwithstanding GATT rules, by one means or another virtually every major auto-producing market in the world has done so—with Germany and the Benelux countries added to the list last year. Britain has now included Japanese small trucks in its limits, and just recently Japan agreed to reduce its car exports to Canada by 12 percent.

What's also hardly unique is the fact that more and more important U.S. Industries are beginning to experience the same type of trade problems as the auto industry. Just a few days ago, the Senate Foreign Relations Committee conducted hearings that spotlighted the growing Japanese threat to America's high technology leadership in electronics, biotechnology, aerospace and robotics.

As with the automotive industry, so with hi-tech: the survival of our leadership in these critical manufacturing and technological fields is of paramount importance not only to our trade with other lands, but also to our political, economic and military leadership in the world. In terms of international stature and U.S. national security, I question whether primacy in service industries would be an adequate tradeoff for allowing ourselves to become a second or thrid rate industrial nation. I know of no world power that has been based on a service economy.

These vital problems, we believe, cannot be resolved by dismissing them as the just deserts for the shortcomings or unions, by simply pledging allegiance to the flag of free trade, by looking the other way, or be praying for miracles in the marketplace. Marketplaces have rules—if not ours, then someone else's. Trade obviously ought to be free, but the fact is it cannot be free without fairness and equity for all the players. And it will not be fair for America unless there are fundamental changes in U.S. policy.

I mentioned earlier the differences in tax structures among major trading partners and the need to correct the dollar/yen relationship. These are issues of competitiveness that affect not just the auto industry but the whole U.S. economy.

In the case of taxes, it may not be widely understood that the U.S. tax structure is not nearly as well designted to facilitate international trade as the tax structures of most exporting nations. Our major trading partners minimize their income and payroll taxes—burdens on production costs—by imposing substantial sales taxes on consumption. Under GATT rules, these sales taxes may be rebated on exports and imposed on imports, whereas income and payroll taxes may not.

This amounts to a double-whammy on U.S. products. a U.S. car shipped to Japan carries a full load of U.S. taxes and Japan collects a sizable commodity tax when it arrives there. When a Japanese car is exported to the United States, Japan rebates the commodity tax—I believe it's in the range of 17-22 percent—and there is no offsetting tax collected in this country. The net effect is that the total tax burden on a Japanese car sold in America is hundreds of dollars less than on a U.S. car built here, or on a Japanese car sold in Japan. This certainly doesn't sound equitable to me.

An even more basic issue is the undervalued yen, which is in sharp contrast to the strength of the Japanese economy. Japan's record of controlling inflation, of improving productivity, its rate of savings and its trade surplus are the envy of the world. In theory, flexible exchange rates should compensate for such differences among countries. But the yen-dollar rate hasn't strengthened to compensate for Japan's superior performance in inflation—let alone other Japanese advantages. In fact, the yen/dollar rate has actually weakened.

Since 1973, when flexible exchange rates were introduced, cumulative U.S. inflation has been much worse than Japan's. If the value of the yen had strengthened to compensate for this inflation advantage, the yen today would be trading in the range of 185 per dollar. Instead, it has been trading recently at about 265—an undervaluation in relation to the U.S. dollar of some 40 percent by this measure. The difference between these two rates equates to about $1,500 per car—an extraordinary trading advantage to gain simply because a currency is undervalued. This clearly is not an esoteric issue.

The reason most commonly cited for the undervalued yen is high U.S. interest rates. Since early 1981, however, the U.S. prime has dropped from 21½ percent to 13½ percent but the yen has not strengthened—on the contrary, it has depreciated from 203 per dollar to 265.

It seems to us the exchange rate mechanism just isn't functioning fairly. What a devalued currency really amounts to is a powerful subsidy on exports and an enormous penalty on imports. That doesn't sound like fair trade to me.

Turning to the specific proposal this committee is considering, let me offer a perspective.

First, it would be preferable for Japanese producers to come to the U.S. voluntarily rather than to be subpoenaed by statute. Ford has long urged that auto producers who wish to sell here in high volume build their cars and trucks here—to invest their money where they earn it, to provide jobs and to contribute to U.S. tax rolls.

The concept of producing where you sell is well established in the auto industry. Ford Motor Comapny has been doing it around the world for almost the 79 years of our existence. Japan itself enforced a domestic production policy for a generation while it was creating its own auto industry and excluded foreign carmakers altogether.

Second, a serious shortcoming of ths local content legislation is its lack of immediate job creation. America needs more jobs now, not starting in 1985 or 1986 when the proposed legislation would really begin to take effect. A more immediate jobs impact would flow from continuing the Japanese voluntary restraint program at present levels for at least a third year—during this unprecedented period of plant and product changover and extraordinary unemployment.

Early last year, each of the U.S. auto companies recommended to the President that these same steps be taken to alleviate imbalances with Japan in auto trade and jobs "to help abate growing protectionist pressures which threaten the fragile structure of international trade." I believe that thoughtful leaders in Japan would agree that these steps—encouraging Japanese production here and continuing voluntary restraint—meet the test of reasonableness. Various spokesmen for the Jananese government have said these would be in Japan's best interests.

Third, I would urge the government to take the actions necessary to correct the inequities of the undervalued yen and the disparate treatment of taxes under GATT rules, both of which work to America's serious disadvantage in the world trading community. By sending Japan a very clear message that restraints on Japanese car exports should continue, our government will gain time that can be put to good use in attempting to resolve the basic tax and yen questions.

With these steps, it is our hope that local content legislation would be unnecessary. The proposed legislation should be viewed as an instrument of last resort to be considered when other measures to correct trade inequities and imbalances have been tried and have failed—in short, when Congress is convinced that there is no other way to solve these international competitive issues that disadvantage all U.S. industry.

In the meantime, Ford Motor Company and its employees will continue to work together to design and build products embodying high technology and innovation, to make our quality even better, and to take other steps within our control necessary to improve our competitiveness. America is our home, it is where we want to stay, and we intend to do all we can to compete here.

To rephase the Speaker's rule, Mr. Chairman, the American government, business, and labor together, will have to go along a cooperative road if America is to get along in the world of international competition. Ben Franklin was pretty stark about the alternative.

STATEMENT OF ROGER B. SMITH, CHAIRMAN OF THE BOARD, GENERAL MOTORS CORP.

Good morning, Mr. Chairman. My name is Roger B. Smith. I am chairman of General Motors Corporation. I am appearing before the House Ways and Means Subcommittee on Trade to discuss our views on legislation requiring domestic content in automobiles sold in this country.

There is no doubt that the auto industry has been experiencing difficulties.

Sales of cars and trucks in the United States for the 1982 model year will total approximately 10 million units. That's the lowest volume since 1964, a period of 18 years.

The economy into which we must market our products has been a major contributing factor to the industry's diminished sales performance. The U.S. is just beginning to emerge from some three years of economic stagnation, a situation made longer and more severe by record-high interest rates. The prime rate stands at 13½ percent today, but it was 20 percent just before our new models came out last September. Besides contributing to the general economic weakness which has depressed the incomes of our household and business customers, high interest rates pose particular problems for such interest-sensitive industries as autos and housing.

The high cost of government regulations also continues to severely impact the industry. At a time when inflation was already pushing up the prices of cars, equipment required to comply with safety and emission regulations has added approximately an extra $1,100 to GM sticker prices.

Despite the good progress made thus far by the Reagan Administration in reducing the burden of federal regulation, the automobile industry and the rest of society remain highly regulated. In fact, several hundred new regulations have been proposed or imposed by the federal government, including the independent agencies, since the first of this year.

While some of the regulations are, of course, necessary, clearly much more can and should be done by Congress and the regulatory agencies to reduce the extraordinary financial and personnel burdens required to comply with regulations:

Intensified worldwide competition has also been a major challenge. The oil shocks of 1973 and 1979 abruptly shifted the market in favor of foreign manufacturers. With gasoline no longer cheap, the shift to smaller cars occurred practically overnight—faster than the American automakers could respond, given the long lead times which govern our industry. It takes at least three years to get a new vehicle from the design stage into production. Foreign manufacturers were able to respond quickly to this market shift with cars designed and produced for their home markets where fuel costs had been much higher and driving patterns significantly different from those in the U.S.

But as we've been able to build new products designed to provide American consumers with greater choice and to meet our foreign competition on a more equal footing in the marketplace, we've been more than able to hold our own. The new compact pick-up trucks introduced this past year by GM are a prime example. These S-10 and A-15 trucks are No. 1 in their market class, outselliing any individual competitor, foreign or domestic.

Similarly, the domestic industry's lineup of new, more fuel-efficient cars has also made notable progress against the competition from the rest of the world, excluding Japan. Admittedly, the whole U.S. car market is down this year. But looking at the '82 calendar year through August, we see that imports or import-sponsored makes—excluding those from Japan—have experienced a drop in volume of about 25 percent from the same period as last year, while domestically built cars are down only about 14 percent. So we know, given a fair position, we can meet and beat the competition.

Japan is unique for several reasons, which I would like to discuss later.

Overall, at General Motors, we see the current problems of our industry as a triad. There are problems that management alone must solve. There are problems that mangement and the unions working together must solve. And there are external problems over which only governments have control. I would like to describe each of the problems briefly and some of the ways in which we are working to solve them.

First management's problems. As I indicated, the oil shocks of 1973 and 1979 significantly altered the pattern of consumer demand in the U.S. At the same time, lower growth in demand and worldwide industry overcapacity have fostered a more intensely competitive environment. American-based manufacturers, led by General Motors, are responding to the challenge with massive programs to produce new lines of cars and trucks and to revitalize the manufacturing processes.

Extensive efforts have been undertaken to improve all areas of our business—production facilities, the use of human resources, and the cars and trucks themselves. Following the 1973 oil embargo, GM responded aggressively to the intense consumer demand for increased fuel economy. Since 1974 at GM, more than $10 billion has been spent in redesigning our entire U.S. product line. As a result, we have more than doubled the average fuel economy of our fleet. Our efforts in this area continue along with our dedication to achieving needed improvements in quality, productivity, and cost.

In fact, GM is now over halfway through a five-year, $40 billion capital improvement program that will extend through 1984. This program is designed to upgrade or rebuild most of our GM facilities, to make further improvements on our products, and to modernize industrial tools and processes. Nearly all of GM's assembly facilities in the U.S. will be either new or significantly modernized by 1985.

But there remains a problem at the lower end of the product line. At present we have a substantial cost disadvantage in producing such cars in the United States. This cost handicap threatens to undermine our objectives, our distribution organization, and our overall competitive position.

As you know, all American car companies have entered into new relationships with foreign companies. Competitive economics at the lower end of product offerings have made such moves mandatory. To this end, we have entered into an agreement with Isuzu to import a small car. We have owned a 34 percent interest in Isuzu for more than 10 years and have arrangements with them on product programs for world markets. We are also negotiating to import a small car from Suzuki Motors Ltd. This car would be smaller than any car currently produced in the U.S. We are currently talking with Toyota about the joint manufacture in this country of another small car. These arrangements with foreign companies will assure that American auto manufacturers retain a strong and competitive presence in this growing segment of the industry.

Working with foreign producers on smaller vehicles for the U.S. market is not a new idea. On previous occasions, other domestic firms have temporarily supplemented their car offerings with imported vehicles as we did with our LUV trucks from Isuzu.

Another response from management is the improvement in our management structure. We are streamlining our lines of supervision and have improved management productivity dramatically.

Second, as to those problems involving both GM and labor, we are diligently seeking to reduce our labor costs. Our contract signed with the UAW in March is slowing the rate of increase in hourly wages and benefits, improving productivity by reducing pay for time not worked, and is providing for easing of restrictive work practice through local negotiations.

Even more important, though, the UAW contact has initiated significant changes in the union-management relationship. It has moved us in a new direction—away from confrontation and toward cooperation, away from our adversarial past and toward a new alliance aimed at the future.

In today's more sophisticated environment of worldwide competition, both labor and management know that the best way to move forward is together. In working toward that goal of cooperative progress, the agreement between the United Auto Workers and General Motors is an agreement for the future. It brings GM management and GM employes together in a united effort to meet and overcome the competition. Like our widely acclaimed quality-of-work-life programs, it seeks to unleash the creative energies of all our employes.

However, the full benefit of progress in this critical area could take years to achieve. The recent contract, although an important first step, will not substantially narrow the existing labor-cost differential with the Japanese.

Third, we have the external problems—basically problems that we as a corporation cannot solve on our own. The lead must be taken by our government and other governments involved in our trade problems.

The greatest single contribution the U.S. government can make to strengthen American competitiveness is to provide the policies that lead to a stronger and more stable economy.

The record high interest rates we have all had to contend with have been devastating to American industry—particularly the automotive and construction industries. These rates have now tempered somewhat, as I mentioned. But the spectre of increasing budget deficits, and the obstacles they pose to maintaining an anti-inflationary monetary policy without diverting badly needed funds away from private investment, continue to cause concern in financial markets. The only solution is an ongoing effort to reduce government spending, and thus to find the most appropriate mix of fiscal and monetary policies that will successfully keep both inflation and interest rates on a downward trend. And we must intensify the effort to reduce the costly burden of federal regulation.

Beyond the problems which business, labor, and government must address, there are other factors influencing our competitive position with the Japanese. One of these is the impact of the rate of exchange of the dollar and the yen. The current rate of exchange gives the Japanese an enormous advantage in the American market. The yen has depreciated since 1980 by approximately 30 percent—from about 200 to the dollar to the 265 level at present—and is now clearly undervalued. While we are trying to close the cost gap between American—and Japanese-built cars, the excessive depreciation of the yen gives Japan an increasing cost advantage that cannot be overcome by actions taken by our industry alone.

Since the disparity in financial conditions which affects currency values depends on government policies in both countries, it is in order to consider adjustments of the relevant government policies contributing to the present exchange rate distortion. In this area, as in others, the federal govenment has a fundamental responsibility.

The reasons the yen stays at a low rate vis-a-vis the dollar require urgent study. I have written to Treasury Secretary Donald Regan urging a comprehensive analysis of the factors that have contributed to the serious undervaluation of the yen. This analysis should go beyond the position that the absence of central bank intervention indicates market equilibrium. It should include public policies both in Japan and this country that affect short- and long-term forces which determine exchange rates. Investment patterns in both the public and private sector are affected by these policies and these, in turn, affect capital flows. Similarly, the integration of the Japanese and world financial markets would have important effects.

The Japanese program of voluntary restraint in automobile exports showed the world that the Japanese government is aware of the problems caused by its position in the American market. It also showed an awareness of the growing protectionist sentiment in the United States and the need to act to avoid ill-considered protectionist legislation.

If some further action is deemed necessary, it would be preferable that the U.S. government urge the Japanese government to continue the voluntary restraints. United States Trade Representative William Brock has been quoted as saying, "The agreement will have to be extended. [It] has worked, but our economy has not. There has been no surge in sales because of high interest rates. You can't blame the agreement for the absence of any tangible result."

As to the concept of domestic production, General Motors supports the principle that manufacturers have an obligation to provide jobs, pay taxes, and support the economy of the market in which they sell. General Motors has based its operations throughout the world on this very principle for decades. I believe that, over the longer run, no alternative policy can prevail if there is to be fairness and balance among the major trading nations of the world. We also note that a more realistic exchange rate would reduce Japan's incentive to export cars to the U.S. and provide the incentive for them to produce in the United States.

General Motors supports the principle of domestic production and sales, but I do not believe that legislation is the best way to achieve the objectives we seek.

Legislation is often inflexible and unpredictable in its results. We support the testimony of the Motor Vehicle Manufacturers Association last March which makes the point that ". . . while there is increasing controversy over U.S./Japanese automotive trade, concepts such as domestic content requirements raise serious questions regarding the feasibility of implementing them, the possible adverse impacts on U.S. producers and consumers, and the broader ramifications for U.S. international competitiveness and the structure of the world trading system." We believe that government's role is best defined as that which makes the U.S. economy strong and stable—and therefore an advantageous location for production.

In conclusion, I am sympathetic to the objective of the legislation, that is, to strengthen the American auto industry and increase American jobs, but I do not agree that legislation is the best means of reaching that objective. The difficulties of our industry will not be resolved in legislative halls, but rather in a free marketplace where we earn our success by offering superior products at competitive prices. That is the continuing objective of General Motors and we have committed our resources to its achievement. And with the help of our government and our employes, we will succeed.

STATEMENT OF PHILIP A. HUTCHINSON, JR., VICE PRESIDENT, INDUSTRY-GOVERNMENT RELATIONS, VOLKSWAGEN OF AMERICA, INC.

Mr. Chairman, my name is Philip A. Hutchinson, Jr. I am Vice President of Industry-Government Relations for Volkswagen of America, Inc. (VWoA). I am here at your request in order to present the views of my company on H.R. 5133, the Fair Practices in Automotive Products Act.

Volkswagen of America, Inc. is a U.S. corporation, chartered in New Jersey, with Corporate Headquarters in Warren, Michigan. VWoA is a wholly-owned subsidiary of Volkswagenwerk AG of Wolfsburg, West Germany, one of the world's largest automobile manufacturers.

During the current debate on local content legislation, Volkswagen has often been cited as a positive example of a foreign automobile company which has established manufacturing operations in the United States. It is appropriate at this time to discuss the reasons why VW decided to build cars and trucks here, since the purpose of the bill, as envisioned by its proponents, would be to stimulate other automobile companies which are currently importing vehicles to locate manufacturing facilities in the U.S.

Volkswagen of America was organized as an importer of Volkswagen products in October 1955, six years after the first two VW Beetles were sold in the U.S. VW sales were 35,851 units during 1955, 162,037 in 1960 and reaced 357,144 in 1965. In 1970, the U.S. VW organization sold a record of 583,000 Volkswagens, Porsches and Audis, but that year marked the end of the company's impressive sales growth as a new factor in the import business equation had to be considered.

In 1971, the exchange rate of the U.S. dollar compared to the German Deutschmark began a course which caused the price of German goods to rise. As the value of the dollar declined, VW's competitive position in the American market deteriorated sharply. This was a classic example of price elasticity where increasing retail prices of VW products resulted in decreasing sales. A VW Beetle which cost $1,999 in 1972 rose to $3,499 in 1975. While not all of the per vehicle price increase can be attributed to dollar devaluation, this accounts for most of the added costs. Overall Volkswagen sales fell from 485,645 to 267,730 in the same period. VW's share of the

U.S. market dropped from a peak of 5% in 1970 to 2% in 1976, with a corresponding decline in profitability for the manufacturer and over 1,000 U.S. VW dealers.

For Volkswagen to be competitive in the U.S. market, it became clear that we would have to build cars here, using a high percentage of local parts and labor. Slightly favorable U.S. labor costs compared to those in Germany, the high productivity of American auto workers, the availability of competitive suppliers and reduced transportation costs were also factors that were considered. In April 1978, the first U.S.-built Rabbit rolled off the line at VW's new assembly plant located in Westmoreland, Pennsylvania, which has a capacity for 215,000 units per year. VW's other manufacturing facilities in the U.S. include a stamping plant located in South Charleston, West Virginia; and a plant in Fort Worth, Texas which manufactures automobile air conditioners, heaters and other parts.

The message to be garnered from this brief review of the reasons why Volkswagen located manufacturing operations in the U.S. is that we came here to reverse a downward trend in our business caused by factors that we could not control as an importer.

In sharp contrast to this situation is the philosophy embodied in H.R. 5133. The bill requires auto companies that sell in the U.S. to manufacture and source here even though it may not be competitive to do so. We believe that it makes business sense to invest where your markets are, providing the company remains competitive. Even before we began our U.S. manufacturing operations, we purchased American materials and components when the price and quality were competitive. But we do not believe it is good public policy, nor does it make sense from a business standpoint, to force foreign automobile manufacturers to build plants here when the economic factors underlying the decision point the other way.

At the present time, the Japanese auto companies can produce cars that appeal to a significant number, but not all, of American automobile purchasers at a productivity rate and wage rate substantially below that for U.S. manufacturers, including Volkswagen of America. The actual numbers in terms of production hours per car and average labor costs, and the reasons for the Japanese advantage, have been well documented in several recent and ongoing government-sponsored studies.

The issue then appears to be, looking at H.R. 5133 in its narrowest sense, whether or not the Japanese auto manufacturers—or any foreign manufacturers having an apparent competitive edge—should be forced to change their way of doing business by means other than the pressures of market factors.

Volkswagen changed its way of doing business here, at great expense and at great risk, because of international market factors. We are proud of our efforts to produce cars here and remain optimistic that we can regain the 5% market share we had in 1970.

If H.R. 5133 were law today, Volkswagen would marginally exceed the domestic content ratio requirements. However, we could come under intense pressure, not from our competitors or consumer demands, but from the requirements of a local content law, if unforeseen events dictate that our best course of business action would be to emphasize imported cars or components in favor of our U.S.-produced cars.

For example, if the Deutschmark were to strengthen against the dollar, we could very easily be out of compliance in the future. Another example: suppose we sought to increase the demand for a particular model to a degree that would justify U.S. production. This would be done through imports until the volume reached the level where economics of scale would justify production. Yet the bill would hold us to our current level of imports, thereby restricting our long goal of expanding U.S. production capacity.

In conclusion, I would like to say that we are concerned about the high unemployment in the auto industry. We have good workers on layoff, workers who would be rehired tomorrow if the demand for our products was there.

The U.S. economy is on the verge of a comeback, interest rates and inflation are down. It is up to VW to position itself for the turnaround with competitive products. Building a wall around this country will not help us compete with the Japanese or other manufacturers. We compete in a worldwide auto market and need the flexibility to buy in Mexico, Canada, Germany and the U.S.—wherever the best quality and prices prevail. To limit this flexibility by enacting H.R. 5133 will jeopardize Volkswagen of America's U.S. operations and hinder the reemployment of our workers as well as the creation of future job opportunities.

Mr. Chairman, thank you for the opportunity to present these views.

STATEMENT OF HON. WILLIAM E. BROCK, AMBASSADOR, UNITED STATES TRADE REPRESENTATIVE

Mr. Chairman and members of the committee; we are in a time of both domestic and world economic stress. In such times it is tempting to turn to the supposed cure of saving jobs at home by keeping out products from abroad. S. 2300 and its companion bill now passed by the House, H.R. 5133, are nothing less than measures intended to promote employment in the United States by coercive and internationally illegal means—a domestic content requirement enforced by a quota.

This Administration is greatly concerned with the very real problems faced by our automotive industry, its suppliers and their workers during the worst slump in this industry in 20 years. Domestic content legislation does not, however, address the fundamental problems of the U.S. automotive industry and, in my opinion, can not only worsen the industry's situation, but cause enormous harm to other U.S. industries and workers as well as the world trading system.

Let us look for a few moments at the U.S. automotive industry. With the benefit of hindsight, we can see that their problems have been coming for some time. Specifically, their problems came to full bloom in 1979 after the second oil supply disruptions following the Iranian revolution. Prior to those events, the U.S. industry appeared to be in fairly decent circumstances. There were large numbers of unsold imported cars sitting in inventory, and U.S. manufacturers were having great difficulty marketing fuel efficient cars required to meet the fleet average fuel economy standards, mandated by law. Then we had the 1979 round of energy price explosions, shortages, and gas lines, which shifted the whole automotive market. U.S. manufacturers were simply not in a position to produce the fuel efficient vehicles that were suddently being demanded by American consumers.

Those problems have been compounded by the effect of government regulations that constantly shifted the ground rules by which the automotive industry does business in this country. If you remember, we first had regulations on safety, and then on pollution, and then on mileage, each of which seemed to contradict the previous one. Many of our business people were reeling from the constant change in U.S. Government policy and the inability to accommodate all the demands being imposed on U.S. manufacturers by their own government. The results of this over regulation in the auto industry had been to raise, substantially, the amount of capital required to do business, and to drain off from the capital base very sizeable amounts of money in an effort to meet governmentally-mandated objectives—many of which had nothing to do with improving the quality or the performance of the car in consumers' eyes.

While the government was sending conflicting signals to the market place by mandating the production of fuel efficient cars and simultaneously suppressing gasoline prices, the auto companies' managements were not moving forward quickly enough to be in a position to replace rapidly, with fuel efficient vehicles, the large cars that the public had, up to 1979, been demanding. And managements and the union were jointly responsible for producing automobiles of less than the highest quality while agreeing to large compensation packages that outpaced productivity and resulted in auto price increases unacceptable both to the consumer and by anti-inflation standards.

All of these factors came to bear on the automotive industry after the 1979 gasoline supply disruption. As a consequence, profits disappeared and cash drained out of the companies. By the end of 1981, the United States "big four" auto companies had a combined $7.5 billion negative cash flow from operations and were $13 billion in debt.

In order to respond to these long brewing problems, one of the first steps taken in this Administration was to welcome restraints by the government of Japan that put a very clear limit on the exportation of cars to the U.S. These restraints were not intended to be a major follback in imports but rather measures to restore confidence in the automobile industry which must make tens of billions of dollars of new investment required by the transition to smaller fuel-efficient vehicles. The Japanese actions have effectively assured that virtually every additional car sold in the United States during the period of the restraints would be manufactured in North America.

However, let me underline the view that it is not factually correct to blame the present condition of the U.S. automotive industry, as bad as it is, on imports. Although average import share of the U.S. market through November of 1982 is 27.7 percent, up from 18.4 percent in 1977, a good sales year, in absolute terms imports sales are running only 200,000 more than five years ago. In fact, import sales have been flat since 1979. What has happened is that domestic car sales have come down because of recession, high interest rates, and auto price increases that made it very difficult for people to make big monthly auto payments.

Now let me turn to the particular pieces of legislation that have been proposed to deal with the unemployment problems of more than a quarter of a million U.S. automobile workers and another 750,000 in automotive supply industries. By every independent analysis that I have seen, including that of the Congressional Budget

Office, automotive domestic content requirements will increase net unemployment in this country, not reduce it. There are a couple of reasons for that.

First of all, this kind of legislation by its very nature, will increase the price of every car sold in this country. That means that fewer people will be able to make the monthly payments and that implies that fewer people will eventually be employed making cars.

Secondly, from my perspective on international trade, despite assurances by the proponents of this legislation to the contrary, closing off our market to a major import like cars—even if only from Japan—would meet with a very negative international response. There would likely be a series of actions, reactions, counteractions, leading both to retaliation and emulation. This would inevitably reduce world trade and result in domestic and international economic stagnation, as did Smoot-Hawley tariffs and similar protectionist actions, some 50 years ago.

We are not simply talking about the auto industry anymore. We are talking about everything that we do, everything that we buy and everything that we sell. And to think that we would jeopardize the jobs of American farmers and chemical workers and aircraft workers and computer workers and service workers, such as bankers, insurers, accountants, engineers and consultants—to think that we would take an action that would jeopardize those occupations and all of those individuals to deal in the wrong way with a problem, just does not make sense. But that is what is being proposed, and that is why it is so dangerous.

Such staunch defense of our free trade policy is not based on an idealistic view of world trade and how our trading partners behave. Rather, the pursuit of free trade is a necessity for the preservation and growth of American jobs. We export 20 percent of all that we manufacture in this country. We export about a third of all that we produce on our farms. We export over a hundred billion dollars worth of our intangible services. There's $220 billion of exports involved. There are five million Americans working in jobs directly related to the export of American goods not counting the people that are working in jobs related to imports as well as indirectly related to exports. And in the context of job creation, between 1977 and 1980, four out of five new manufacturing jobs were created in export industries.

The real problem today is that we have a recession, and it is global, and it is deep, and it is seriously affecting our well-being, not just here, but everywhere in the world. You cannot stop a recession by stopping trade. The only way to deal with a recession is to create more sales, more goods, more trade, and more employment. Stopping trade as solution to unemployment is one exercise in irrationality to which the world must not again resort.

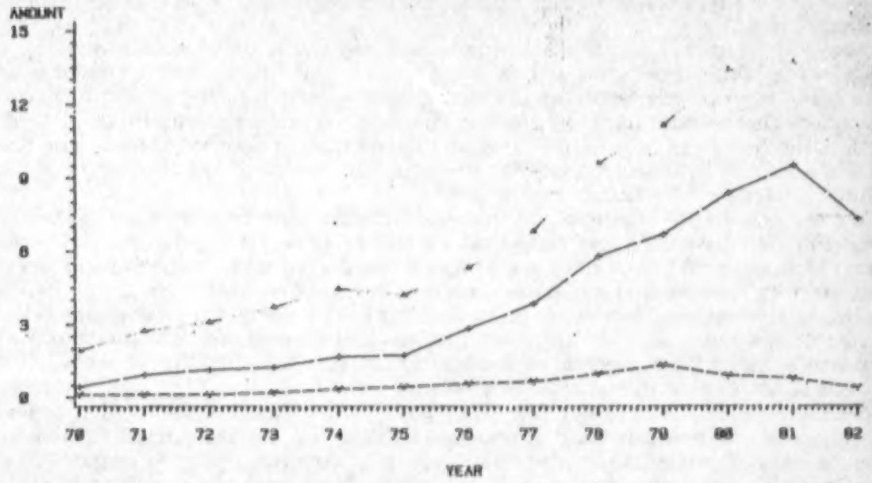
In conclusion, exports and trade mean jobs. Enactment of domestic content legislation would be inimicable to U.S. and world economic health and employment. This Administration opposes domestic control requirements in the strongest possible terms.

Let me add one more thought. As we are all aware, H.R. 5133 as passed by the House contains an amendment, the Fenwick Amendment, that nullifies the domestic content requirements of that bill when they are deemed to contravene our international trade obligations. Since domestic content requirements contained in S. 2300 and H.R. 5133 clearly would put the United States in violation of Articles III and XI of the General Agreement on Tariffs and Trade and the national treatment provisions of many existing bilateral treaties of friendship, commerce and navigation, that amendment would, if adopted in any final version of this bill, block domestic content requirements from affecting countries with which we have existing trade obligations.

While this removes my primary objection to the bill, I would observe, that the passage of a bill containing contradictory provisions, is, at best, a very inappropriate means of sending Congressional messages to our trading partners and, at worst, is a travesty of the legislative process. As a former member of the Senate, I could not support H.R. 5133, as amended for these reasons. As a representative of the Administration, I state that because of the negative precedential value of even inoperative domestic content requirements language, we will continue to oppose this legislation, as passed by the House.

VALUE OF TRADE IN NEW PASSENGER AUTOMOBILES

IN BILLIONS OF $US



LEGEND: SECTOR ← ∗ ∗ IMPORTS EX CAN. ←→→ EXPORTS EX CAN. ←+→ IMPORTS FR JAPN

NOTE: 1982 DATA IS THROUGH SEPTEMBER

SOURCE:
BUREAU OF THE CENSUS
AUTOMOTIVE TRADE STATISTICS
1964 - 19[illegible] USITC PUB. 905

VALUE OF TRADE IN NEW PASSENGER AUTOMOBILES

[In billions of dollars]

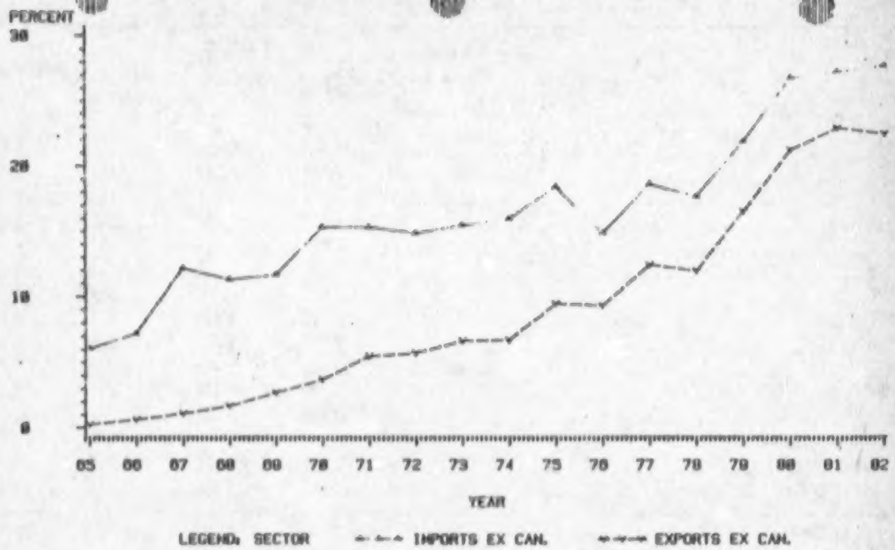
Year	United States			Trade balance
	Imports from the world [1]	Imports from Japan	Exports to the world [1]	
1970	1.913	0.456	0.115	−1.799
1971	2.737	.929	.124	−2.613
1972	3.111	1.138	.123	−2.988
1973	3.716	1.244	.215	−3.501
1974	4.454	1.686	.347	−4.108
1975	4.198	1.742	.435	−3.763
1976	5.327	2.855	.567	−4.760
1977	6.791	3.860	.641	−6.151
1978	9.583	5.771	.956	−8.627
1979	11.135	6.665	1.323	−9.812
1980	13.396	8.362	.884	−12.512
1981	13.725	9.498	.766	−12.959
January to September:				
1982	11.114	7.301	.368	−10.746
1982 [2]	14.819	9.735	.491	−14.327

[1] Except Canada.

[2] Annualized from September data.

Source: Bureau of the Census.

PASSENGER CAR IMPORT PENETRATION



NOTE: 1982 DATA IS THROUGH NOVEMBER

SOURCES:
MOTOR VEHICLE MANUFACTURERS ASSOCIATION
WARDS AUTOMOTIVE REPORTS

DOMESTIC AND IMPORTED CAR SALES

[In thousands]

	Domestic	Imported	Imports from Japan	Total
1965	8,768	569	26	9,332
1966	8,377	651	56	9,028
1967	7,568	769	70	8,337
1968	8,885	1,091	170	9,656
1969	8,464	1,116	260	9,583
1970	7,119	1,286	313	8,405
1971	8,681	1,568	566	10,250
1972	9,627	1,623	629	10,950
1973	9,676	1,763	761	11,439
1974	7,454	1,413	597	8,867
1975	7,053	1,587	817	8,640
1976	8,611	1,500	942	10,111
1977	9,109	2,076	1,387	11,185
1978	9,312	2,000	1,356	11,312
1979	8,328	2,330	1,770	10,658
1980	8,578	2,402	1,908	8,980
1981	8,206	2,342	1,859	8,530
1982 (through November)	5,309	2,037	1,650	7,346
1982 [1]	5,792	2,222	1,800	8,014

[1] Annualized from November data.

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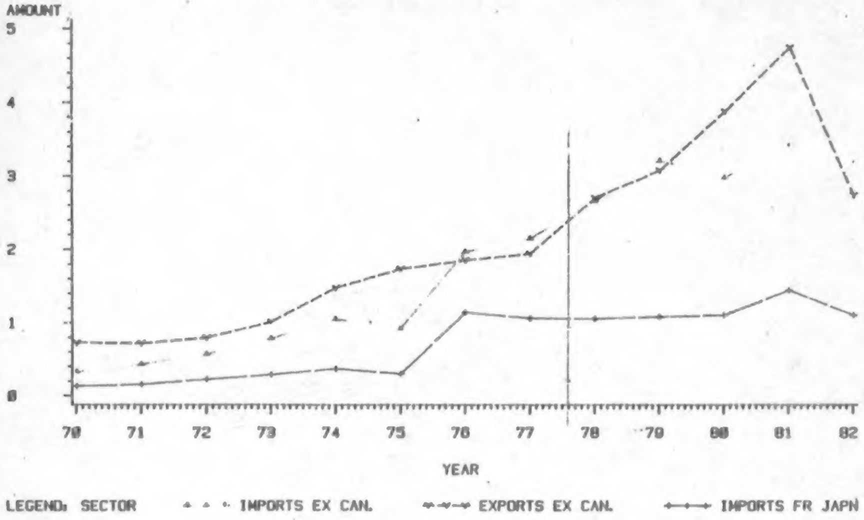
VALUE OF TRADE IN MOTOR VEHICLE PARTS

IN BILLI[illegible] OF $US



NOTE: 1982 DATA IS THROUGH SEPTEMBER

SOURCE: BUREAU OF THE CENSUS

VALUE OF TRADE IN MOTOR VEHICLE PARTS

[In billions of dollars]

Year	United States			Trade balance
	Imports from the world [1]	Exports to the world [1]	Imports from Japan	
1970	0.323	0.731	0.135	+0.408
1971	.431	.722	.156	+.291
1972	.570	.797	.225	+.227
1973	.784	1.014	.290	+.230
1974	1.050	1.472	.371	+.422
1975	.922	1.732	.300	+.810
1976	1.967	1.852	1.146	−.115
1977	2.146	1.939	1.066	−.207
1978	2.653	2.702	1.060	+.049
1979	3.210	3.076	1.086	−.134
1980	2.980	3.881	1.103	+.901
1981	3.417	4.752	1.445	+1.335
January to September:				
1982	2.741	3.181	1.111	+.440
1982 [2]	3.655	4.241	1.481	+.586

[1] Except Canada.
[2] Annualized from September data.

Source: Bureau of the Census.

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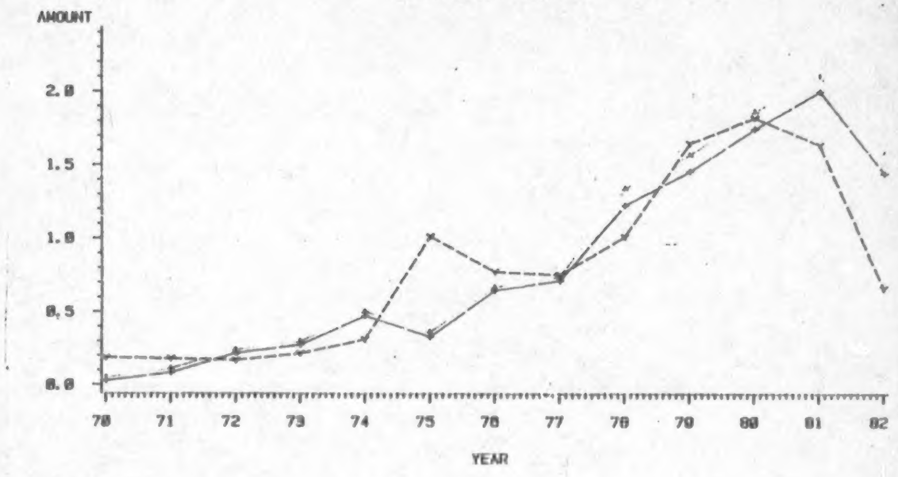
VALUE OF TRADE IN AUTOMOTIVE TRUCKS,
TRUCK CHASSIS, CABS AND MOTOR BUSES
IN BILLIONS OF $US



LEGEND: SECTOR ▲ ▲ ▲ IMPORTS EX CAN. ✦—✦—✦ EXPORTS EX CAN. +—+—+ IMPORTS FR JAPN
NOTE: 1982 DATA IS THROUGH SEPTEMBER

SOURCE:
BUREAU OF THE CENSUS
AUTOMOTIVE TRADE STATISTICS
1964 - 19P' USITC PUB. 985

VALUE OF TRADE IN AUTOMOTIVE TRUCKS, TRUCK CHASSIS, CABS, AND MOTOR BUSES

[In billions of dollars]

Year	United States			Trade balance
	Imports from the world[1]	Exports to the world[1]	Imports from Japan	
1970	0.047	0.188	0.027	+0.141
1971	.109	.181	.083	+.072
1972	.240	.171	.217	−.069
1973	.297	.214	.274	−.083
1974	.503	.312	.472	−.191
1975	.360	1.012	.331	+.652
1976	.669	.772	.647	+.103
1977	.737	.753	.712	+.016
1978	1.341	1.013	1.224	−.328
1979	1.571	1.649	1.458	+.078
1980	1.868	1.826	1.750	−.042
1981	2.102	1.640	2.003	−.462
January to September:				
1982	1.583	.662	1.447	−.921
1982[2]	2.111	.883	1.929	−1.228

[1] Except Canada.
[2] Annualized from September data.

Source: Bureau of the Census.

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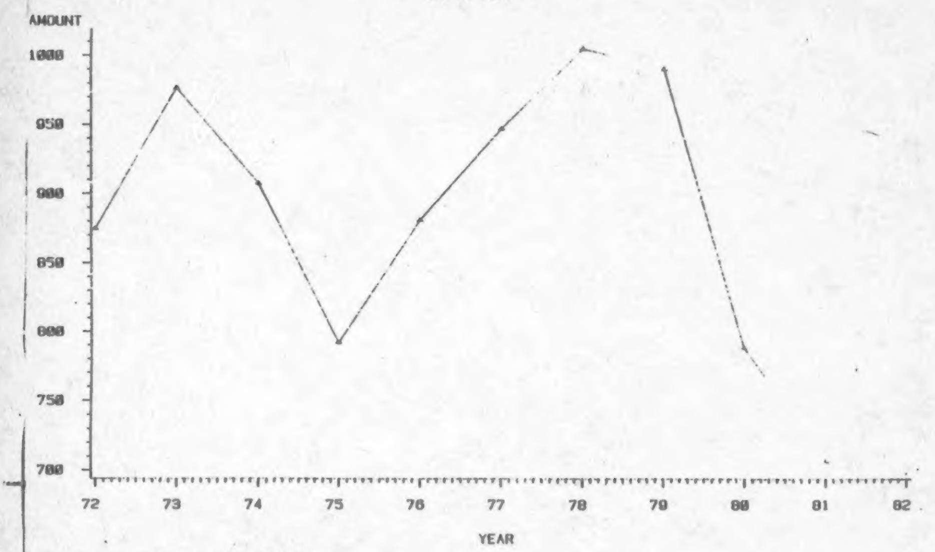
EMPLOYMENT MOTOR VEHICLES AND EQUIPMENT

IN THOUSANDS



NOTE: 1982 DATA IS THROUGH OCTOBER

SOURCE: [illegible]EAU OF LABOR STATISTICS

U.S. employment motor vehicles and equipment

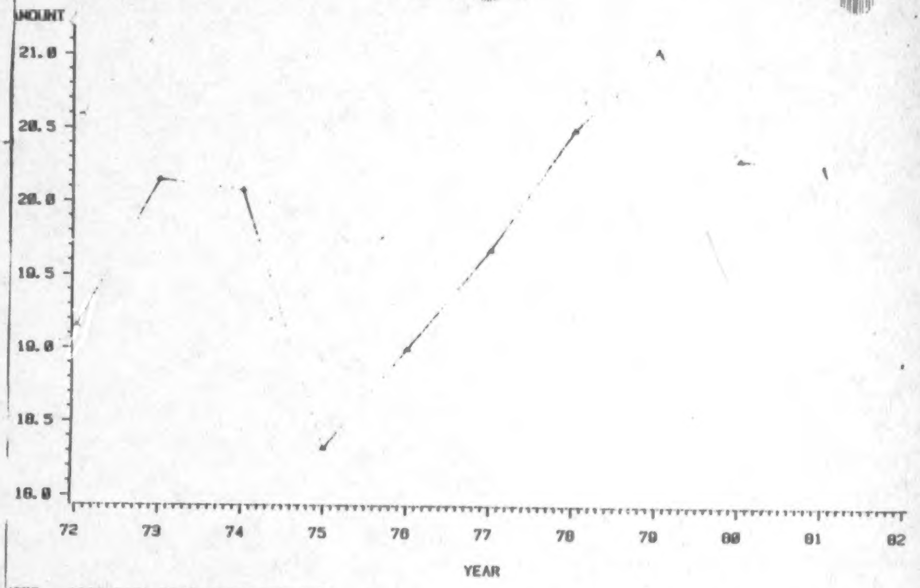
[In thousands]

1972	874.8	1978	1,004.9
1973	976.5	1979	990.4
1974	907.7	1980	788.8
1975	792.4	1981	783.9
1976	881.0	1982 (through October)	697.5
1977	947.3		

Source.—Bureau of Labor Statistics.

EMPLOYMENT IN ALL MANUFACTURING INDUSTRIES

IN MILLIONS



NOTE: 1982 DATA IS THROUGH NOVEMBER

SOURCE: BUREAU OF LABOR STATISTICS

A-6a

U.S. employment all manufacturing industries

[In millions]

1972	19.15	1978	20.50
1973	20.15	1979	21.04
1974	20.08	1980	20.30
1975	18.32	1981	20.26
1976	19.00	1982 (through November)	18.92
1977	19.68		

Source.—Bureau of Labor Statistics.

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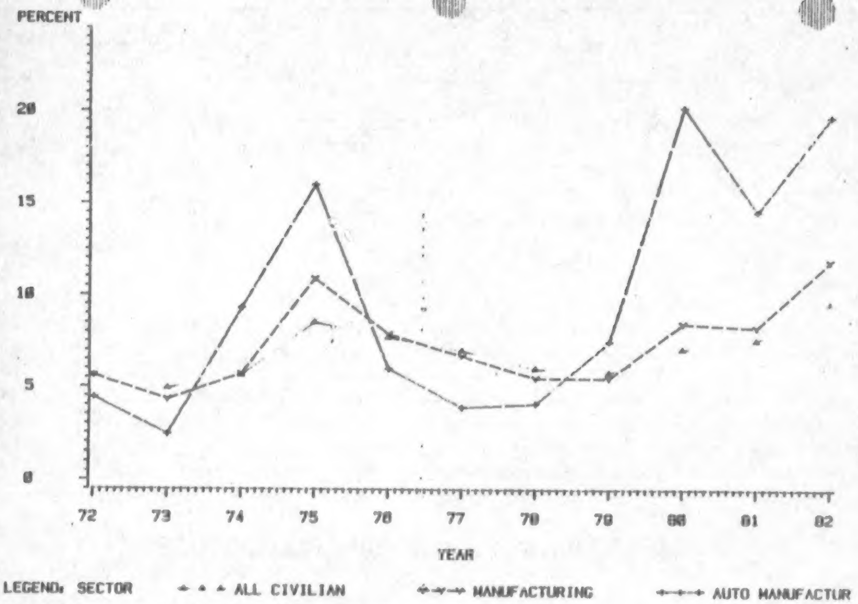
UNEMPLOYMENT RATES



NOTE: 1982 DATA IS AVERAGED THROUGH NOVEMBER

SOURCE: BUREAU OF LABOR STATISTICS

U.S. UNEMPLOYMENT

[In percent]

	All civilian	Manufacturing	Auto manufacturing
1972	5.6	5.6	4.4
1973	4.9	4.3	2.4
1974	5.6	5.7	9.3
1975	8.5	10.9	16.0
1976	7.7	7.9	6.0
1977	7.0	6.7	3.9
1978	6.0	5.5	4.1
1979	5.8	5.5	7.5
1980	7.1	8.5	20.3
1981	7.6	8.3	14.6
1982 average through November	9.6	11.9	19.8

Monthly rates: August 20.8, September 18.7, October 22.0, and November 24.1.

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UNITED STATES-CANADIAN AUTOMOTIVE PRODUCTS TRADE

[In millions]

Year	Total, United States		Total Trade balance
	Exports	Imports	
1966	$1,375	$819	+$566
1967	1,889	1,406	+483
1968	2,634	2,274	+360
1969	3,144	3,061	+83
1970	2,936	3,132	−196
1971	3,803	4,000	−197
1972	4,496	4,595	−99
1973	5,726	5,301	+426
1974	6,777	5,544	+1,233
1975	7,643	5,801	+1,842
1976	9,005	7,989	+1,016
1977	10,290	9,267	+1,023
1978	10,964	10,492	+472
1979	12,273	9,715	+2,558
1980	10,552	8,779	+1,773
1981	12,055	10,618	+1,437

UNITED STATES-CANADIAN AUTOMOTIVE PRODUCTS TRADE

[In millions]

	United States	
	Exports	Imports
Cars:		
1970	$631	$1,474
1971	985	1,924
1972	1,075	2,065
1973	1,439	2,272
1974	1,657	2,595
1975	2,142	2,809
1976	2,354	3,477
1977	2,655	3,795
1978	2,613	4,129
1979	3,147	3,707
1980	2,906	3,802
1981	3,095	4,295
Trucks:		
1970	263	564
1971	334	587
1972	504	713
1973	643	799
1974	916	887
1975	922	917
1976	985	1,363
1977	1,057	1,841
1978	1,158	2,036
1979	1,654	1,978
1980	1,044	1,893
1981	1,122	2,622
Parts:		
1970	2,042	1,094
1971	2,484	1,489
1972	2,917	1,817
1973	3,644	2,240
1974	4,203	2,062
1975	4,579	2,075
1976	5,666	3,149

UNITED STATES-CANADIAN AUTOMOTIVE PRODUCTS TRADE—Continued

[In millions]

	United States	
	Exports	Imports
1977	6,578	3,631
1978	7,193	4,327
1979	7,344	3,831
1980	6,478	2,888
1981	7,838	3,701

QUESTIONS OF THE COMMITTEE AND THE ANSWERS THERETO

Question 1. Please compare the three major versions of automobile domestic content legislation that surfaced during the 97th Congress with respect to their international trade implications: S. 2300; H.R. 5133 as reported by the House Committee on Energy and Commerce; and H.R. 5133 as passed by the House on December 15, 1982. Do you oppose all three versions? In particular, please comment on the action by the House to amend H.R. 5133 to provide that "nothing in this Act shall be deemed to supercede the terms and conditions of any treaty, international convention or agreement on tariffs and trade which is in existence on the date of enactment of this Act and to which the United States is a party."

Answer. H.R. 5133 as reported out by the House Committee on Energy and Commerce and S. 2300 would have established domestic content requirements for the automotive industry as a matter of U.S. law. These requirements would violate U.S. international obligations under the General Agreement on Tariffs and Trade, bilateral treaties of friendship, commerce and navigation and the U.S.-Canadian automotive trade pact. While there are some significant differences between these two versions, which include the modification of the treatment of automotive trade with Canada and changes in the calculation and implementation schedule of the domestic content ratios, the thrust of the bills and their ultimate effect on the international trade situation of the United States, as described in my statement. are extremely grave.

I understand the intent of the "Fenwick Amendment" was to ensure that no part of H.R. 5133 would become operative if it is inconsistent with the General Agreement and/or bilateral treaties. Since Sections 4 and 6 of H.R. 5133 are, in my opinion, inconsistent with our international trade obligations and Section 5 is designed to implement these two Sections, the Fenwick Amendment would render all three of these sections inoperative with respect to countries with which we have existing trade obligations.

Even with the Fenwick Amendment, the negative precedent of domestic content would be set by the House passed version of H.R. 5133 becoming law. There would, no doubt, be future attempts to remove this amendment which is all that would serve to protect the U.S. and the world economies from the disasterous consequences of domestic content requirements. Notwithstanding this Amendment, the Administration would, therefore, continue to oppose strenuously all three versions of this legislation.

Question 2. What are the implications of the revised H.R. 5133 for United States-Canada auto trade and the United States-Canadian Automotive Trade Pact?

Answer. Automotive products originating in Canada were given special treatment in the original version of H.R. 5133. Canadian production within certain limits counted toward the meeting of the domestic content ratios established for manufacturers selling in the U.S. market required to avoid the imposition of quota penalties. No other country was allowed this benefit. Consequently, the treatment of Canada under the original version of H.R. 5133, was not consistent with Articles I and XIII of the General Agreement on Tariffs and Trade (GATT), which provide, respectively, for nondiscrimination in the granting of trade privileges and in the imposition of import quotas.

The substitute version removes this special treatment for Canada and, therefore, would avoid potential violations of GATT Articles I and XIII. The overall domestic content requirements backed by a quota penalty remain in the bill, and would violate Articles III and XI of the General Agreement which provide for national treatment under domestic laws and prohibit quantitiative restrictions, respectively. Since

Canadian exports to the United States would now be fully subject to these domestic content requirements, should they become law, Canada would be free to seek redress under the General Agreement along with other countries that consider themselves injured by the United States action.

With specific reference to the United States-Canadian Automotive Products Agreement, the substitute version of H.R. 5133, would be an incentive for U.S. producers to maximize net exports to Canada. This does not appear to be consistent with Article I of this Agreement wherein both governments agreed to:

(a) The creation of a broader market for automotive products within which the full benefits of specialization and large scale production can be achieved;

(b) the liberalization of the United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries;

(c) The development of conditions in which market forces may operate effectively to obtain the most economic pattern of investment, production and trade.

It should be the policy of each government to avoid actions which would frustrate the achievement of these objectives.

The actual effect on trade with Canada of the proposed substitute bill, should it become law, is of course speculative. The Canadian Government has in the past indicated its displeasure at the continued bilateral deficit in trade Canada has had under the auto trade pact and its desire to achieve a fairer balance of bilateral trade. In 1981 the U.S. automotive trade surplus was $1.44 billion. The cumulative U.S. surplus since 1976 was $8.28 billion. It could be reasonably anticipated that the Canadian Government would respond with mirror-image legislation, or other form of retaliation, designed to achieve both their goal of balanced trade and of neutralizing the U.S. export incentives and import disincentives contained in H.R. 5133. If this came about, it would mean a transfer of jobs from the United States and a further drag on efficiency of production in the North American market.

The U.S. Government is proceeding against the domestic sourcing requirements promulgated by the Canadian Foreign Investment Review Agency as a violation of Article III of the General Agreement. The pursuit of this action against Canada could be impaired were the United States, itself, to blatantly violate Article III of the GATT, through the enactment of domestic content legislation.

Question 3. Proponents of this legislation argue that local content law will result in more foreign auto companies manufacturing autos in the United States. What is your view?

Answer. The enactment of domestic content legislation will force some foreign manufacturers who are affected by the ratios mandated in such legislation and their governments to make decisions regarding compliance. In my view, the extent of the demands placed upon Japanese manufacturers are beyond what they or their government can be expected to accept.

If there is absolute refusal to comply, there would be no increase in auto manufacturing by foreign firms in the United States. If there is some compliance, there could be increased manufacturing in the United States by foreign-owned companies, but not necessarily an increase in jobs as the new operations would be expected to employ the most efficient and labor-saving technology and likely price increases resulting from domestic content legislation would reduce the number of automobiles consumers demanded.

Whether there was compliance or non-compliance, the specific negative effect on our export industries and the general net negative effect on our entire economy of formal and informal retaliation, as well as emulation of our domestic content precedent by third countries, would far outweigh the possible gains in the automotive manufacturing sector.

Question 4. Will the Administration push for the Japanese to continue restraining their auto imports for a third year?

Answer. While the restraints are unilateral actions taken by the Government of Japan, this Administration has been appreciative of these restraints as a temporary measure for assisting the U.S. automotive industry by providing a breathing spell during which management and labor might take actions to recover the industry's competitiveness.

Due to the unanticipated slack in domestic demand for autos in the first two years of Japanese automotive restraint, it has been my view and the view of this Administration that a third year of voluntary restraint by the Government of Japan would be necessary. During my recent trip to Japan the Minister of International Trade and Industry, Sadanori Yamanaka, expressed to me his government's intention to continue the existing restraints through March 1984 at the current annual levels of export. I believe that this action will be beneficial to the U.S. industry.

Question 5. What is the status of U.S.-Japanese parts discussions?

Answer. In the past this Office has tried to achieve fair access for U.S. automotive parts to the Japanese market. Actions which were taken included negotiating the elimination of Japanese duties on most automotive parts and cosponsoring with the Department of Commerce seminars bringing together Japanese automotive manufacturers with potential U.S. parts providers. The Department of Commerce currently has underway a study to identify competitive U.S. produced parts as good candidates for export sales to Japanese manufacturers.

The sourcing of competitive U.S. automotive parts by Japanese manufacturers for inclusion as original equipment in the vehicles they manufacture in Japan and the United States as well as the certification of after-market, U.S. produced replacement parts could have significant beneficial effects on the economically distressed U.S. automotive parts industry. Conversely, Japanese automotive manufacturers' decisions to maintain sourcing from Japanese parts manufacturers with which they have close traditional relationships, and particularly to direct sourcing by their new U.S. vehicle assembly ventures primarily to Japanese or Japanese affiliated parts manufacturers located in the U.S. will not be helpful to the existing U.S. parts industry where there is, today, extensive over capacity.

I would hope that the unilateral restrictions on automobile exports to the U.S. maintained by the Japanese Government do not serve as an excuse for the Japanese automotive manufacturers to follow a policy of less than full market access and fair consideration of auto parts proffered by U.S. manufacturers.

Question 6. Can you explain in more detail why you believe that domestic content legislation, such as S. 2300 and H.R. 5133, in effect places quotas on auto imports?

. Answer. Domestic content legislation, to effectively require what private market decisions will not, must provide for a legal instrument of enforcement, or more precisely, coercion. In both S. 2300 and H.R. 5133 the sanctions against vehicle manufacturers, contained in Section 104 of the original bills, constitute an import restriction in the year following any year in which the domestic content ratio is not met. In H.R. 5133, as amended and passed by the House, Section 6 provides for a similar quantitative restriction if the domestic content ratios are exceeded by a manufacturer. These explicit quantitative restrictions contained in all versions of the domestic content legislation are effectively quotas on imported cars linked to the non-fulfillment of the mandated performance of domestic sourcing and would be inconsistent with Article XI of the General Agreement on Tariffs and Trade which prohibits such practices.

Question 7. What industries currently produce most new jobs in the United States. Are these export industries? What would be the impact of domestic content legislation on the growth of these industries?

Answer. Seven out of 10 jobs in the United States are now in the service area and in 1981 the surplus in trade in services of $41 billion helped offset the increasing deficit in merchandise trade.

Looking at the manufacturing sector alone, between 1977 and 1980, four out of five new manufacturing jobs were created in export industries. A recent study commissioned by the President's Cabinet Council on Commerce and Trade found that 9 out of the 10 fastest growing industries in the United States in the 1980's will come from the high technology area. These include: Communications equipment, pharmaceuticals, electronic components, aerospace, industrial chemicals, scientific instruments, engines and turbines, computers and office equipment, and plastic and synthetic materials. For 1981, these industries and other high technology industries had a net positive balance of trade of $31 billion.

Domestic automotive content legislation, although directed at one industry, could, and in my opinion would, severely impact foreign market access for our export oriented service, manufacturing and agricultural industries. Domestic content legislation would be contrary to our obligations under the General Agreement on Tariffs and Trade as well as various bilateral treaties of Friendship, Commerce and Navigation. This illegal action on our part would not only undermine our ongoing efforts to open foreign markets more fully to U.S. exports, but likely lead to a series of actions and counteractions that would inevitably reduce world trade and lead to international economic stagnation. The industries with the greatest growth and export potential, through the retaliatory and emulative responses unleased by the domestic content precedent, would be the industries to suffer most. The Congressional Budget office has predicted that these losses to U.S. industry and jobs would more than offset the gains to the auto industry resulting from enactment of domestic content legislation.

Question 8. What are the latest steps taken by the Administration for achieving fair market access to Japanese markets? What would be the impact of domestic content legislation on these efforts?

Answer. One of the principal objectives of the Administration's trade policy toward Japan is to obtain access for U.S. goods, services and investment in the Japanese economy similar to the access which Japan enjoys in the U.S. economy. The Administration has pursued this objective through a series of high-level meetings and contacts over the last eighteen months. Most recently, the issue of market access was discussed at the U.S.-Japan Trade Subcommittee meeting in December, during Prime Minister Nakasone's visit to Washington last month, and also during my February visit to Tokyo.

These efforts have resulted in four sets of initiatives on the part of the Japanese Government to address this increasingly sensitive issue. The initiatives announced in January, May, and November of last year included a number of tariff reductions and actions to reduce nontariff barriers in such areas as customs, standards, and certification procedures, among others. On January 13, the Nakasone Government announced an additional set of measures designed to promote foreign access to the Japanese economy. A number of the measure were politically sensitive in Japan, and in several cases, Prime Minister Nakasone personally intervened in the decisions to override opposition and strengthen specific commitments.

The January 13 initiative represents the first effort of the Nakasone Government to address the problem of trade friction between the United States and Japan. Some of the measures contained in the initiative, in particular the commitment to review and revise Japan's national standards and certification systems, and the commitment to strengthen the Office of the Trade Ombudsman (OTO), present the possibility of real and fundamental change and could result in a significant opening of the Japanese market.

A long agenda of trade issues remains to be addressed. The enactment of domestic content legislation at this time would greatly undermine the spirit of cooperation between the Administration and the Nakasone Government in addressing these issues, and therefore, would likely rule out the possibility of further substantive actions on the part of the Japanese Government to open the Japanese market to U.S. goods, services, and investment.

Question 9. What GATT sanctions or retaliatory trade restrictions would foreign countries, including Japan, be entitled to if the U.S. enacted a local content law? If a GATT complaint were filed against the United States by Japan or by a European country, what basis, if any, would the United States have for filing counter charges?

Answer. Domestic content provisions contained in H.R. 5133 and S. 2300 would be directly contrary to the requirements of Articles III and XI of the General Agreement on Tariffs and Trade, which provide for national treatment under domestic laws and prohibit quantitative restrictions, respectively. GATT article III states quite simply that no contracting party to the GATT * * *" shall establish or maintain any internal quantitative regulation * * * which requires directly or indirectly that any specified amount or proportions of any product * * * must be supplied from domestic sources." Other sections of this same article provide that imports from another party shall be accorded treatment no less favorable than that accorded to domestic products, and that internal and quantitative regulations requiring specified amounts or proportions shall not be applied so as to afford protection to domestic production. Similar national treatment provisions are also included in commercial treaties between the United States and many of our principal trading partners.

I am unaware of any formal restriction on the export of U.S. produced automobiles to Japan and European countries that would be inconsistent with the General Agreement on Tariffs and Trade; therefore, if a GATT complaint were filed against the United States for implementing an automobile domestic content rule, there would be no basis for filing a counter claim with respect to an identical restriction on our exports. However, this Office is aware of other unfair restrictions on U.S. exports maintained by these countries that might form the basis for separate action under the dispute settlement procedures of the GATT. I specifically cite the 85 page report transmitted to Congress by this Office, in the Fall of 1982, which describes Japanese barriers to U.S. exports of goods, services and investment. There are also restrictions on Japanese automotive exports to some European countries and Canada, that in the absence of similar Japanese export restraint to the United States, could cause unfair trade diversion to the U.S. market and form the basis of a complaint under the GATT.

Let me state, however, that the net result of U.S. implementation of domestic content requirements leading to a series of reactions, and counteractions, within or outside the GATT framework, would be a destruction of the rules governing free trade and a reduction in world trade and employment. In this case, no one can win by counter suing under the GATT; all the disputing countries will come out losers. And the United States, whose share of all world exports last year was over 13 percent, would be among the greater losers.

Question 10. Please summarize briefly the tariffs and non-tariff barriers that currently exist to sales of U.S.-built automobiles in Japan and the status of negotiations on these barriers.

Answer. The duty on automobile imports into Japan has been suspended for several years allowing automobiles to be imported free of duty. Most Japanese duties on automotive parts have been likewise suspended or permanently lowered to low or duty-free levels. Therefore, tariffs do not currently constitute a barrier to the export of U.S. produced automobiles or most automotive parts to Japan.

The Japanese Ministry of Transportation maintains two systems of automobile inspection procedures. Both systems require the individual inspection of imported automobiles at local Land Transport Offices by Japanese officials for homologation to Japanese safety and noise standards. Under the conventional type certification system, a sample vehicle of each model must be presented for inspection. Under the simplified procedures for small volume importers, U.S. producers may avoid this initial inspection by providing specification documents. In January, the Government of Japan announced that these latter procedures for imports would apply for quantities of imported vehicles of up to 300 units of a single model—an increase in the applicability of these small volume procedures from 100 to 300 vehicles. Virtually all imports from the United States would enter under these limits. The mechanism does not eliminate the need to have each imported car inspected at Land Transport Offices, but does result in simplified documentation and reduced testing requirements for U.S. suppliers.

While one can now say that the Minister of Transportation gives "national treatment" to U.S. auto imports, and in the case of the low volume import procedures, slightly simplified treatment, the Japanese system still does not provide U.S. manufacturers with the same treatment in Japan as Japanese manufacturers receive in the United States. The U.S. National Highway Traffic Safety Administration (NHTSA) maintains a manufacturer "self-certification" system for domestically produced and imported cars, alike. At a meeting in December 1982, between United States and Japan automobile regulatory agencies, officials from the NHTSA stated that the U.S. self-certification compliance system ensures an equal or higher level of safety than does the Japanese system.

The United States had proposed that the Japanese Ministry of Transportation accept certification of compliance by U.S. manufacturers and eliminate the inspection that each vehicle must undergo at the local Land Office in Japan. This proposal, which has the support of U.S. industry, would provide substantial financial relief to U.S. motor vehicle exporters in the form of reduced costs in demonstating compliance without diminishing the integrity of the Japanese automotive market under inspection conditions that are substantially equivalent to those faced by Japanese exporters to the United States. While the Government of Japan has flatly denied this proposal, I intend to raise this issue with them again in hope that this residual government barrier to U.S. exports to Japan can be eliminated.

[Whereupon, at 10:05 a.m., the hearings were canceled, to be rescheduled to a later date.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF STATE

S. 2300, a bill to require an increasing percentage of American material in automobiles sold in the United States is to be considered by the Senate Commerce Committee this week. The Administration has opposed this legislation from the outset because of the long term damage it would do to the American economy and to our international relations. I urge its defeat in the strongest terms.

Those who favor the bill claim it will result in an increase in jobs in the U.S. There has been no substantiation of this claim; indeed, most analyses of the bill, including that of the Congressional Budget Office and the Congressional Research Service, come to the opposite conclusion. Although some jobs may be created in automobile manufacturing, job losses in sales, advertising, and transportation, related to automobiles, would equal or exceed any gain. In addition, foreign retaliation against American exports could cause substantial job losses in other important sectors of the economy, such as agriculture and aviation.

I understand the concern that high unemployment in our automobile industry has caused. The effort which the American automobile industry has already made to become more competitive must continue in order to alleviate this problem. The Administration, through its general efforts to revive the economy, seeks to assist the auto industry. This legislation would be detrimental to any recovery by inflicting real costs on other sectors of the economy and would shield the auto sector from economic forces that might compel it to make the difficult but necessary decisions for long-term growth.

I can also understand the frustration and anger felt by many over certain Japanese trade practices. We continue to emphasize to the Japanese in the strongest terms at every opportunity, the urgent necessity to remove barriers to their market. We have seen some progress and have hope of more in the near future. This would undermine our efforts to open the Japanese market and would tend to make any expectation of steps on their part illusory.

Finally, I should stress that legislation setting quantitative regulation of products in specified amounts or proportions is expressly prohibited under the General Agreement on Tariffs and Trade. Thus, enactment into law of this bill would be inconsistent with our international obligations. In seeking to open additional markets abroad for U.S. products, the Administration is not only following a long-standing, bi-partisan policy, but is trying to aid the economy in general as well as the auto sector. Much of our effort has been in attempts to eliminate injurious unfair trade practices by others. For us to take a step inconsistent with our obligations would greatly weaken out ability to achieve further trade liberalization; the entire economy would suffer as a result. It could also lead to other countries taking similar protectionist steps with dire results for our trade and our economy.

For the foregoing reasons, I urge that this legislation be defeated.

STATEMENT OF CONSUMERS FOR WORLD TRADE

Consumers for World Trade (CWT) is a national, nonprofit, membership organization, established in 1978. CWT supports expanded foreign trade to help promote healthy economic growth; provide choices in the marketplace for consumers; and counteract inflationary price increases. CWT believes in the importance of increasing productivity through the efficient utilization of human and capital resources. CWT conducts its educational programs to keep American consumers informed to their stake in international trade policy and speaks out for the interests of consumers when trade policy is being formulated.

Consumers for World Trade opposes the Fair Practices in Automotive Products Act (S. 2300). This legislation would do two things to the American consumer:

It would raise prices.

It would restrict his freedom to buy what he pleases.

These are predictable, certain results.

In the first instance, the bill would create an artificial scarcity of automobiles that demonstrably have met the demands of a great many consumers. In effect, it is a bill to set import quotas.

The bill would establish domestic content requirements to be reached in stages over the next three years. There is no practical way for the higher targets to be met by foreign producers during this short period. A severe reduction in imports would be forced on the market. Prices of imported cars would rise. Prices of domestic autos would follow them up.

How great the direct price impact would be depends on assumptions about the state of the economy and the various responses of foreign and domestic manufacturers to the new situation. Under no conceivable assumptions would it be trivial.

That would be the beginning. The bill would impose rigid content requirements on the Big Three. No matter what opportunities were available to cut costs by investment and procurement abroad, these producers would be chained to a fixed domestic content ratio. American Motors and Volkswagen of America would see their domestic content ratios rise if their sales rose.

In its treatment of the American manufactures, the measure therefore aims at a kind of freeze of the status quo. The effect would be to restrict possibilities for advances in efficiency through further international specialization. This reflects a Great Wall of China philosophy. As always the consumer would be the ultimate victim.

Proponents of S. 2300 say that it would promote foreign investment here. To a small degree it probably would, as some foreign producers might find it feasible to meet the lower ratios that would apply to lower volume sales, particularly as American car prices escalated. Consumers, however, can hardly find any cheer in the prospect of foreign investment that is forced by American statute rather than induced by normal market considerations. It will be another cost-raising development.

Looking ahead, how many other industries will be singled out for similar legislation? Imports of manufactures were running at an annual rate of $138 billion in this year's first half. If a domestic content rule is good for autos, why not for all transport equipment? Or for all durable consumer goods? Or why stop with manufactures? For example, mixing regulations could be placed on the domestic coffee industry to assure a suitable share for roast barley in our breakfast blends. For consumers, the precedent that would be set by the present bill is a truly discouraging one.

Then there are the costs of foreign retaliation. S. 2300 is in direct violation of Article 3, paragraphs 1 and 5, of the General Agreement on Tariffs & Trade. Our trading partners have a clear legal right to retaliate. It is not believable that the right would be exercised. Once again, the price in distortion and disruption of existing trade patterns would be paid in the end by the consumer.

In fact, the danger here is considerably greater than a first round of retaliatory trade actions. The United States would be delibeately savaging the GATT at a time when the whole trading order is already at risk. A lapse into general anarchy, such as we had in the 1930s, is no longer so far-fetched an event. We could move the trading world perceptibly further toward it with the wide breach in our GATT commitments that would be represented by the measure now being considered. There will be few winners from that.

Finally, S. 2300 proposes to take away from Americans the right to buy a automobile of their own choice. If this law said straightforwardly that only a select few consumers could buy a Toyota or a Datsun, the Congress would surely reject it. Dressed up as a domestic content bill, it has acquired substantial support. Nevertheless, it remains a large scale intrusion on everyone's freedom of choice. The Congress should refuse to enact it.

FACT SHEET—DOMESTIC CONTENT LEGISLATION

1. S. 2300 is a quota bill.

The requirements for a local content ratio will be attainable by only the smallest manufacturers.

The number of available foreign cars will be reduced by 70 percent of 1.4 million units.

2. S. 2300 is inflationary.

Consumers are already paying more per unit as a result of the voluntary automobile export restraints with Japan and will pay, if this bill is enacted, an estimated total of $3,200 more per unit.

American cars will go up in price because of being deprived of cheaper foreign sources for parts.

Japanese cars will go up in price and only the more expensive models will be available.

3. S. 2300 limits consumer choice.

By severely reducing imports, it will force American consumers to purchase cars which may not meet their needs or their pocketbook.

It will reduce the incentive of U.S. manufacturers to produce smaller, energy-saving cars which consumers have demonstrated they prefer.

4. S. 2300 will cost U.S. jobs.

The Congressional Budget Office indicates that, at most, 38,000 auto jobs might be created by 1990.

However, 104,000 jobs would be eliminated in other sectors. These include: 2,000 foreign car dealerships in the U.S. employing an average of 33 employees each; jobs in related industries such as port workers, assembly plants, etc.; and jobs lost through retaliation on U.S. exports, i.e., agriculture, aircrafts, computers and electronics.

5. S. 2300 does not benefit the American Auto Industry.

It will increase the cost of their product and discourage sales.

It will make it much harder to compete in foreign markets as they will not have access to the less expensive foreign sources for parts which are available to foreign exporters.

6. S. 2300 will cause retaliation.

The legislation violates GATT rules which prohibit domestic content laws.

Our trading partners will have the right to retaliate against our most competitive exports, i.e., agriculture, aircrafts, computers and electronics.

7. S. 2300 is a disincentive to foreign investments.

It will not be economically sound for foreign firms to produce in the U.S.

Foreign firms already producing in the U.S. might find it economically necessary to reduce rather than expand their present facilities.

8. S. 2300 sets a dangerous precedent.

Other manufacturers would press for similar protection.

Producers of other consumer goods might do the same.

S. 2300 is a dangerous, protectionist bill. It will have a severe impact on American consumers, on other trade sectors, and on the American economy. It should not be enacted by Congress.

STATEMENT OF LAWRENCE A. FOX, VICE PRESIDENT FOR INTERNATIONAL AFFAIRS, NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. Chairman, members of the Committee, I am Lawrence A. Fox, Vice President for International Economic Affairs for the National Association of Manufacturers. NAM believes strongly that domestic content legislation in the form of S. 2300, now before this Committee, or H.R. 5133, which is being considered on the House side, would be a serious mistake.

We have accordingly opposed this type of legislation in testimony before the Trade Subcommittee of the House Committee on Ways and Means and in letters to members of the House and Senate. We appreciate this opportunity to explain our views on the domestic content bill or more formally the "Fair Practices in Automotive Products Act", S. 2300 and compliment you Mr. Chairman for calling these hearings at this very critical period.

NAM appreciates the broad jurisdiction of this committee and the relationships between the committee's responsibilities and the subject matter of S. 2300, viz. transportation policy, interstate commerce, and consumer products. The automobile is perhaps the preeminent consumer product. For us, however, S. 2300 is primarily a trade bill and our views on it stem largely from the effects we believe its enactment would have on U.S. exports and the conduct of U.S. trade policy. The apparent purpose of the bill is to increase the proportion of the U.S. market for automotive products that is accounted for by U.S. products as distinct from imported automobiles and automotive products. Quotas against imports are the principal means of enforcing the domestic content guidelines which the legislation establishes.

I should like, therefore, to begin with a brief comment on the international trading system as a whole and the way in which the NAM member companies are affected by the operation of that system. Our roughly 12,000 members account for approximately 80 percent of U.S. industrial output and 85 percent of U.S. industrial employment. Because the lion's share of U.S. exports is shipped by the larger American companies, almost all of whom are NAM members, it is a fair guess that our members account for an even greater proportion of U.S. manufactured exports than of U.S. industrial production.

Our country's dependence on exports is enormous. The United States is the world's largest exporter with 1981 exports valued at $233.7 billion. In the manufacturing sector alone, over 20 percent of U.S. production is exported; in agriculture the percentage is even higher. In short, we have reason to be keenly aware of the U.S. stake in world trade and our relationship to the world trading system.

The hallmark of that system is the General Agreement on Tariffs and Trade or GATT. In November the eighty-eight countries that make up GATT met in Geneva at ministerial level, something which has not happened since the Tokyo GATT Ministerial of 1973. The November meeting was an important event, and like most everyone who has commented on it, I will admit to some disappointment in the results. I would agree, however, with Ambassador Brock, who, in his press conference following the meeting, observed that "The intensity of debate on a few issues tended to overshadow agreement in most." I think it is worth a moment of the Committee's time to review one critical point of agreement because it has a direct bearing on the legislation you are considering today. I refer to paragraph 7(i) of the GATT Ministerial communique. This reads as follows:

"7. In drawing up the work program and priorities for the 1980's, the contracting parties undertake, individually and jointly: (1) To make determined efforts to ensure that trade policies and measures are consistent with GATT principles and rules and to resist protectionist pressures in the formulation and implementation of national trade policy and in proposing legislation, and also to refrain from taking or maintaining any measures inconsistent with GATT and to make determined efforts to avoid measures which would limit or distort international trade."

I would ask the Committee to bear in mind that this pledge, which in fairness is not the whole of the GATT Ministerial's achievements, is an expression of minimal obligations. It is as if the contracting parties has said: If we cannot go forward as we wished, with clear extensions of international law over new areas of trade, let us in any event not go back. We all need the system, and the system needs our support, which is to say our compliance. This is the very least we can do without jeopardizing the system itself.

It is extremely troubling to think that this minimal commitment I have discussed might be broken only a short while after it has been signed by the most important signatory, the United States.

Yet it is clear, as has been testified to by many, that domestic content legislation would involve the United States in serious violations of the GATT rules. If S. 2300 were enacted it would, at the least, involve the United States in violations of GATT Articles III, which provides for national treatment of merchandise which has legally entered the customs territory and Article XI, which in general forbides the use of quantitiative restrictions or quotas. As I have indicated, it is the quotas in the penalty section of the bill that give the rest of the bill force.

This past summer, it bacame apparent to us, our members and others that the effort to impose on the U.S. and world economies the dangerous trade restraints contemplated by S. 2300 had to be taken very seriously. On July 15, the NAM International Trade Policy Committee met in special session to review this legislation. Our committee approved a strong resolution of opposition, and as members of the Committee know, I forwarded a copy of that resolution to every Representative and Senator under cover of a letter of July 22. More recently NAM's president Alexander Trowbridge wrote to the members of the House urging them to vote "no" when the domestic content bill came to the floor in that body. I do not plam to read the resolution but rather to discuss with you its key elements. I would, however, be greatful if the resolution and the letters I have referred to could be made a part of my testimony and included in the record of this hearing.

The Senate bill under consideration this morning is the same bill the NAM Trade Committee considered last summer and broadly similar to the bill that was taken up on the House floor last Friday. It is all but identical to the original House bill, H.R. 5133, which was the subject of a Congressioanl Budget office analysis, published last August. The CBO study noted that, "The practical effect of the bill would be the imposition of a rigid import quota on each foreign auto producer." That indeed would by the effect of any version of this legislation with which I am familiar, though the level of the quota is not the same in all cases. Our concern is with the essential character of the legislation, and I shall therefore not comment extensively on the individual sections, or drafting differences among the versions of the bill I have referred to. I would note that my remarks relate primarily to Title I of S. 2300. Though Title II suffers some of the same weaknesses, Title I is the more egregious. It is also worth pointing out that because this legislation is so fundamentally flawed efforts to improve it have only caused new problems.

I mentioned that this bill violates Articles III and XI of the GATT. I might also note that S. 2300 violates Article I, the most favored nations clause, which is the bedrock of most international trade agreements. The violation occurs because Canadian automotive products are treated as if they were products of the United States, thereby discriminating in favor of one trading partners over others. The House Energy and Commerce has "solved" this problem in the version of H.R. 5133 which it reported out on September 21. That substitute would treat a disruption of the North American automobile industry and serious problems with Canada our closest neighbor and largest trading partner for a violation of the MFN provision of GATT. The point here is not that we would be better off violating the GATT in this instance but rather that the entire approach of the domestic content legislation is flawed.

A further point that needs to be made in any discussion of this legislation is that the bill's apparent emphasis on automotive products is deceptive. S. 2300 has implications for all manufacturing sectors and for the conduct of U.S. economic policy both domestically and internationally. The legislation provides a large, and largely unsought, grant of immunity from foreign competition to one segment of the economy. It is naive to think that, if this bill were to become law, Congress and the Administration could long resist the pleas for similar favors from other sectors. We are neither sanguine nor unconcerned about the serious difficulties of the U.S. automobile industry and the men and women who work in it. Our objection is to legislation that seems to ignore options of both U.S. and international law and the realities of American interests.

I hope I have made clear that to assume, as the legislation implicitly does, that we do not need trade or that we can afford to rest in our efforts to achieve a more open trading system is autarkic foolishness. If, for example, one were to subtract from the 1981 merchandise trade account both our petroleum imports, valued at $78.5 billion, and our export to OPEC countries, valued at $21.5 billion, the result would be a U.S. trade surplus of $18 billion. But we need the oil and we need to pay for it. We need the oil, the export earnings, and the jobs. In manufacturing alone some 4.8 million Americans earn their livelihoods producing for export. Of the $233.7 billion the United States earned from exports in 1981, $154.3 billion was from the export of manufactured goods.

I do not emphasize these facts simply to highlight the dangers of retaliation, which can be exaggerated. Granted, the legislation represents such clear and significant violations of our GATT obligations that retaliation cannot be discounted, and granted too that S. 2300 would put at risk more jobs than it could reasonably be expected to create. The fact, however, that the United States has vital interests in the international trading system is something that needs to be appreciated in and of itself. Ignorance of this point is the Scylla of U.S. trade policy. The Charybdis is the notion that our trade problems are self-correcting and that American exporters require only benign neglect from U.S. policy makers.

Industrial strength and export competitiveness are not attributes of an economy that can simply be taken for granted. It concerns us very much, and we believe it should concern the Congress and the Administration, that Japan and Germany dwarf the United States in their ability to generate surpluses in their trade in manufactured goods. In 1981 Japan's surplus in manufactured goods was $115.6 billion, Germany's $61.7 billion and ours only $5.3 billion. In 1982 it is doubtful we will have any manufactured surplus at all.

Even if the domestic content legislation ultimately fails, as we hope it will, the debate over it will have been an expensive exercise. It has taken valuable Congressional time away from the discussion of realistic solutions to the very serious trade problems we face and may even be responsible for effectively blocking constructive trade legislation. More seriously, domestic content threatens, if it has not already destroyed, the traditional bipartisan support for an open trading system. In the last analysis that support is an absolute precondition for the survival of the trading system. The following are examples of U.S. trade problems which in our view are considerably more worthy of the Congress' and the Administration's attention than is domestic content legislation.

The Yen.—The dramatic undervaluation of the yen, or, put differently, the failure of the changes in the values of the yen and the dollar to reflect the changes in competitive strengths of Japan and the United States, has resulted in an economic challenge of the first order. This misalignment of currencies has, of course, contributed to the price advantage of Japanese automobile manufacturers in the United States, perhaps on the order of 20–25 percent. But its importance goes beyond that. It affects U.S. competitiveness in every market of the world. Left uncorrected, it threatens the U.S. industrial base. We have raised this matter with the Administration, and on November 30 I gave testimony on the subject of the undervalued yen before the Trade Subcommittee of the House Committee on Ways and Means. A copy of that testimony and Alexander Trowbridge's letter to Treasury Secretary Regan on the same subject are attached as part of my statement.

Export Trading Companies.—NAM was a strong and consistent supporter of this legislation and we are pleased that it is now law. We thought it was important both because by itself it has the potential of enhancing exports and creating jobs and because in our view American business and trade performance would benefit by a clear statement from the Congress and the Administration that the U.S. Government is dedicated to improving U.S. export performance. The promise of that legislation cannot be fulfilled if we either adopt protectionist policies that give the green light to those who would close markets abroad or if the energies of the government become so absorbed in import policy as to ignore what needs to be done on the export side. Both of these dangers are fueled by domestic content legislation.

Export-Import Bank.—Failure to appropriate adequate funds for the Export-Import Bank is strangling U.S. exports of big-ticket items, especially capital goods and certain high technology equipment and systems. Only about 5½ percent of U.S. exports benefit from Eximbank and other official export credit programs, whereas the comparable figure for Japan is close to 40 percent. I urge the Congress to give this problem the high priority it deserves and attach testimony I gave on this issue before the Senate Banking Committee on September 14.

Foreign Corrupt Practices Act.—It should be clear by now that in its present form this law hurts American exporters, and many in the House and Senate have been working hard for the last two years to amend existing law in a manner that will improve competitiveness without sacrificing principle. This effort too may fail simply because the legislation does not enjoy the priority necessary to squeeze it through in the last days of this session.

The Reciprocal Trade and Investment Act.—This is legislation that could, over time, ensure a closer relationship between policy initiatives and national priorities, provide a useful toughening and clarification of Section 301 of the 1974 Trade Act, and give clear Congressional support for U.S. negotiating positions in the GATT.

There is another set of alternatives that needs to be addressed because it bears directly on the issue at hand. I refer to the relationship between this legislation and Section 201 of the Trade Act of 1974 and further to the relationship between section 201 and Article XIX of the GATT.

Section 201.—It has been almost two years since the International Trade Commission made the determination that imports were not a substantial cause of injury to the U.S. automobile industry, and so it is open to the UAW or the industry to petition the ITC anew under Section 201. Notwithstanding the inherent difficulties of meeting the "substantial cause" test, it seems possible to us that the continued weakness of the U.S. industry and the ability of imports to capture an ever larger share of the U.S. market might now permit a different finding by the Commission. On the other hand, given the expense and the uncertainty of the outcome, industry reluctance to pursue this course again would be more than understandable.

These factors, however, need not be a bar to this course of action. Under the law, the President, the USTR, the Senate Finance Committee and the Ways and Means Committee all have the power to request an ITC investigation under Section 201 to determine whether automobiles are "being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or threat thereof, to the domestic industry . . ." In short, Congress, which can pass H.R. 5133, can also open a new ITC investigation.

Separately, if the Congress were to conclude that Section 201 as drafted makes it virtually impossible for an industry like the automobile industry to obtain relief, then perhaps Congress should consider amending the statute. GATT article XIX, which exists because the United States insisted upon it and which provides the analog in international law to Section 201, is must less restrictive than Section 201. One of the problems of the latter, of course, is that it appears to make import relief impossible in a recession since the recession will in most cases be seen as a greater cause of the industry's difficulties than imports. This particular version of Catch 22 seems to have been avoided in the GATT. A discussion of the famous hatters' fur case by Professor John Jackson, perhaps our foremost legal scholar on the GATT, suggests that the heart of the matter was resolved in 1951. The case involved a U.S.

withdrawal of tariff concessions on hatters' fur from Czechoslovakia on the grounds that they caused or threatened serious injury to the U.S. industry. Professor Jackson writes:

"The GATT Working Party struggled with the question of serious injury and its cause. It examined data regarding quantities of imports and of United States production and employment in that industry, and found evidence of 'large and rapidly increasing . . . imports, while at the same time domestic production decreased or remained stationary.' This it concluded, was evidence of some weight in favor of the view that there was a threat of serious injury."

Common sense suggests that it is unwise to regard international trade as a competition in virtue. Certainly, it makes sense for the United States to try to improve the international trading system and to work to strengthen the legal framework within which most trade is conducted. It does not make sense, however, for domestic law to anticipate these improvements. In other words, the United States need not restrain itself on import relief beyond the requirements of the GATT.

Having said this much it is important to add that I am not today advocating either a Congressional resolution directing the ITC to open a new 201 automobile case or changes in Section 201. I am suggesting that these options, which are consistent with U.S. international obligations, be thoroughly explored before the country adopts legislation such as S. 2300.

Earlier I said that the danger of retaliation could be exaggerated and throughout I have referred to the importance of keeping U.S. actions consistent with international law. There is a relationship between the two. It is a big gamble, but proponents of the legislation may be correct in arguing that the value of the U.S. market to Japan is such that Japan is unlikely to risk a rapid escalation of U.S. import restrictions by retaliating against domestic content legislation. On the other hand, Japan may feel that retaliation offers the only hope of containing this protectionist response to imports. In any event, the greater danger is that the legislation will undercut not only U.S. negotiating efforts in the GATT but efforts of those policy makers throughout the world who daily argue against protectionist solutions to economic problems. The international trading system can be likened to a city police force. The level of crime with which we are all familiar inspires a certain cynicism with respect to the efficacy of the police. But the conditions for our lives are far to be perferred to the chaos that results when there are no laws and no police.

We are well aware that GATT rules are frequently honored in the breach; that local content requirements are not unknown even in the OECD (Greece, Turkey, Spain and Australia have them); that France, Great Britain and Germany all have restrictions on automobile imports more severe than those which would be imposed by S. 2300; and that the Japanese automobile industry, clearly now the world's most competitive, was built up under conditions of almost 100 percent protection. Surely these measures flout the spirit if not the letter of the GATT, and just as surely the international system would be strengthened if these and similar measures in other countries and on other products could at the very least be notified to GATT, preferably under the provisions of a new safeguards code. NAM has consistently supported such a code, and had hoped that agreement on a safeguards code might have been one of the accomplishments of the GATT Ministerial. We were nevertheless encouraged to see that the GATT Ministers have instructed the Director General of the GATT to complete work on a safeguards code in time for the 1983 annual meeting of members.

The suggestion that because the United States currently benefits, if that is the right term, from Japanese export restraint in automobiles renders us unable to push for a new code is in my view without merit. Certainly, though, enactment of S. 2300 would make such an effort by the United States seem quixotic if not arrogant.

A discussion of the relationship of this legislation to the trading system as a whole should not obscure the fact that the legislation is directed primarily at Japanese exports and understandably so. Many U.S. companies are distressed by the nature of our trading relationship with Japan. Indeed the NAM's International Trade Committee insisted on a paragraph expressing this viewpoint in their resolution of opposition to domestic content. This is the last paragraph of the resolution, and it reads as follows:

. . ., recognizing that domestic content legislation has ben inspired in large measure by Japanese policies that have unjustifiably burdened U.S. commerce, the Natijonal Association of Manufacturers urges the Congress and Administration to take appropriate action with respect to these policies at the earliest possible moment.

Houdaille Case.—In this connection, one of the more provocative commentaries on the unhappy relationship between Japanese policy and U.S. competitiveness now under consideration by the Administration is the Houdaille case. This case provides an illustration of an often overlooked element in Japanese industrial policy: that is the selective disregard of competition laws and the explicit encouragement of cartels. This is a petition for relief under Section 103 of the Revenue Act of 1971 filed last May by Houdaille industries of Fort Lauderdale, Florida. Houdaille, an important machine tool builder that has seen the Japanese share of critical U.S. markets rise dramatically in recent years, has asked the President to deny the investment tax credit for the purchase of numerically controlled (nc) machining centers and numerically controlled punching machines from Japan. Between 1976 and 1981, Japan's share of the U.S. nc machining center market went from 3.7 percent to over 50 percent, and in nc punching machines their share rose from 4.7 percent to 37.6 percent. Much of the petition is devoted to a description of the Japanese machine tool cartel and the manner in which it has been sheltered and nurtured by the Government of Japan. The issues raised by this petition, which NAM supports, are important for all of U.S. manufacturing. A common thread with the automobile industry, for example, is the question of whether industries that come to maturity under virtually full protection from international competition are to be accorded the same privileges in the marketplace as those which have had to deal with foreign competitors from their inception. The issue is an important one, especially now for America's high-technology industries. There is a temptation to assume that an industry or company that has had to battle world competition from its inception must be stronger than one that has grown up behind import barriers. That may be true in some cases but certainly not in all, and such an analysis overlooks the advantages of a secure market and assured cash flow that protection affords.

For the sake of this and other issues, we feel that the Houdaille case bears scrutiny by Congress as well as the Administration, and I should be grateful if the comments NAM submitted to the USTR on this matter could be included in the record as part of my testimony.

I have said as much as I have about the Houdaille case because it highlights our deep concern over several aspects of U.S. trade with Japan. These are serious problems which urgently need to be addressed. That does not mean, though, that the United States or U.S. industry can afford solutions, like S. 2300, which ignore and so jeopardize the benefits we receive from international trade.

Again I thank the Committee for this opportunity to testify.

NATIONAL ASSOCIATION OF MANUFACTURERS,
Washington, D.C., July 14, 1982.

Hon. DONALD T. REGAN,
Secretary of the Treasury,
U.S. Department of the Treasury, Washington, D.C.

DEAR MR. SECRETARY: In January 1982, the National Association of Manufacturers established a Task Force on U.S.-Japan Commercial Relations. The Task Force membership is broadly representative of U.S. industry, as well as major banks and export-related service industries. This Task Force is now in the process of working on a number of trade, financial and investment issues. The broad outlines of the Task Force's work are set out in a resolution passed by NAM's Board of Directors on March 17, 1982 (copy enclosed). NAM's objectives relate to the resolution of immediate as well as longer range problems of a systemic nature in our commercial relations with Japan.

One of the most critical concerns of the Task Force is the exchange rate between the U.S. dollar and the Japanese yen. We are, of course, aware of the Administration's general concern about the consequences for U.S. industry of the undervalued yen, but regret that no practical steps have been taken or proposed to deal with the problem. The manufacturing community is intensely concerned about the undervalued yen in both the immediate and longer term.

In the short term, U.S. industry is losing market shares at home and abroad. The yen has depreciated since 1980 by approximately 25 percent—from about 200 to the dollar to the 250 level at present. The meaning of this depreciation in competitive terms is dramatic: While Detroit has been seeking to close a $1,500 gap between U.S. and Japanese built cars the depreciating yen has in fact given Japan an additional $1,200 to $1,500 advantage during this time.

In the long term, new investment by American industry is not taking place because in many instances this investment would be uneconomic in light of the inordinately competitive price of Japanese goods resulting from an undervalued yen. To the extent that the Japanese challenge represents the free play of economic forces, it can be viewed as a natural development and should not be interfered with. We have become increasingly concerned, however, that the American response to the

Japanese challenge is being distorted and undermined by a gross misalignment between the U.S. dollar and the Japanese yen.

Our concern is not unique. The European Community in its formal case against Japan under Article XXXIII of the General Agreement on Tariffs and Trade (GATT) referred to the yen a "a *sui generis* currency," which was "in certain respects tightly controlled and which has been insulated from the outside world." The Community noted that "the yen does not play a role internationally commensurate with the strength of the Japanese economy." Reference is made to the European view, not so much to buttress our arguments, but to indicate the necessity for international cooperative action in dealing with an international trade and financial problem which cannot be left only to Japanese authorities to deal with and which under present circumstances defies a straight-forward market solution.

Today the yen stands at more than 250 to the dollar—a rate not much higher than in March 1973, when generalized currency floating was established. Indeed, if we utilize the well-known Morgan Guaranty real effective exchange rate index, we find that the dollar is now 16 percent higher in value than in 1973, while the yen is about 15 percent lower, as measured on a multilateral, trade-weighted basis. During this interval the volume of Japanese exports has grown over twice as fast annually as U.S. exports (8 percent to 4 percent). At the same time, the annual price increase for Japanese manufactured exports, in national currency terms, has been five points per year lower than the equivalent U.S. figure (7 percent to 12 percent). These and other fundamental underlying economic conditions—such as current balances, official reserves, trade balances, productivity growth, and wholesale price increases—indicate that the nominal value of the yen should have risen much more substantially over this time period against the dollar; instead we have seen a fairly steady drop in the yen since its peak of 180 in 1978.

The interest rate differential between the U.S. and Japanese domestic credit markets is undoubtedly an important reason for the misalignment of the dollar and yen during the last few years. As you know, NAM fully supports the Administration's concern regarding high U.S. rates. However, we feel that reduction in our interest rates will help relieve only part of the exchange rate problem between the dollar and the yen. We are inclined to believe that a good part of the problem will persist despite interest rate changes because the Japanese have to an important degree cut their domestic credit markets off from the influences of the international financial markets.

Japan's low domestic interest rates, which are less than half American and European rates, obviously reflect the interplay of a number of factors, including a superior performance in maintaining a low level of inflation since the 1973–74 oil crisis. It is also important, however, to realize that Japan's domestic credit system relies in many respects as much on quantitative restrictions and official guidance as it does on price in allocating credit to priority sectors of the economy. Consequently, interest rates can remain relatively low and provide a reliable and cheap source of domestic as well as export credit to major Japanese exporters of manufactured goods.

It is not hard to appreciate the current desire of the Japanese government to maintain low interest rates in light of relatively poor domestic economic performance and the need to hold down the cost of financing their large budget deficits. Yet, to what extent are these low rates also enabling Japan to "solve" its domestic economic problems by exporting them through an undervalued currency? Estimates have been made that two-thirds of Japan's almost 3 percent real GNP growth for the fiscal year ending in March 1982 came from exports. It is hardly unreasonable to ask how much longer countries with no real growth and with unemployment reaching toward double digit figures can tolerate this situation, especially in light of a 2 percent unemployment rate in Japan. Does it make much difference if a country pursues a "beggar-thy-neighbor" policy by means of trade protection or domestic monetary and credit policies?

You will appreciate that I am not suggesting that Japan is now actively intervening in foreign exchange markets to bring about a low price for the yen, although Japan has done this in the past. Quite the opposite is the case—since the misalignment at this point is so notorious, causing Japanese officials to be quite defensive respecting the undue trade advantages conferred on Japanese goods in export markets as well as in the Japanese home market. The most "successful" Japanese exchange market intervention was in the mid 1970's, when massive intervention halted the appreciation of the yen. Japanese intervention in January 1981 appears to have halted yen appreciation at that time and perhaps help to set the stage for the current weak yen. Lisle Widman, former Deputy Assistant Secretary of the Treasury for International Monetary Affairs, observes:

"Bank of Japan officials acknowledge that in January 1981 they did intervene to stop the appreciation of the yen when it moved back above 200. Whether they did so because they had concluded that they should protect their trade position by avoiding further appreciation or simply because the rapidity with which the rate was moving created a 'disorderly' market we will never know. Japan had been running a deficit in its current account balance in 1980 and the country was still very concerned about its ability to finance oil imports. I suspect the gut judgment of Japanese officialdom is that a 200 to 220 rate would be best for Japan. Nevertheless, Japanese officials maintain that the intervention was not intended to alter the long-term trend."

Our view is that a good deal of the undervaluation of the yen basically results not from direct exchange rate intervention but from Japanese policies in respect to their domestic credit markets. To the extent that these policies maintain the trade advantages of an undervalued currency, they are a fair target for attention in the International Monetary Fund under Article IV of the IMF Articles of Agreement.

This prohibits signatories from manipulating their currencies or taking other action to "gain an unfair competitive advantage" in trade. Additionally Article IV calls for IMF surveillance over exchange rate policies for a number of reasons, including, ". . . behavior of the exchange rate that appears to be unrelated to underlying economic and financial conditions including factors affecting competitiveness and long term capital movements."

We were pleased to see that agreement was reached at the recent Versailles Summit on an improved consultation process involving the IMF and the major industrial countries, as well as the initiation of an IMF study of the efficacy of foreign exchange intervention. We would certainly support Administration efforts to use this consultation process to the fullest in examining the interaction between the Japanese domestic credit markets and the continued under valuation of the yen. We would also suggest a careful examination of Japanese currency intervention in the 1970's which may have laid the groundwork for the present undervaluation of the yen.

I would conclude by expressing the opinion that the persistence of a seriously undervalued yen for the next several years obviously presents serious obstacles to the modernization of the American industrial base and to the general American economy. The Administration's successful efforts to resist protectionism in this country and abroad has the full support of the National Association of Manufacturers. Perhaps no greater step to assure the continuation of the open markets in the U.S. and around the world could be taken than to help bring about promptly a major appreciation of the yen. It is likely that high U.S. interest rates may persist for some time and lower rates, once achieved, may be only of limited value in the context of the yen-dollar exchange rate. We therefore, urge consideration of policies that work toward the improvement of the operation of the international monetary system, including the requirement that major trading countries maintain a reasonable foreign exchange value for their national currencies reflecting underlying economic forces.

To date the Treasury has given no indication publicly that the yen-dollar exchange rate is of concern to the U.S. government. To relate how significant this issue is to the revitalization of American industry, I would be pleased to call on you with members of NAM's Board of Directors to elaborate business views on the importance of this critical issue in industry's investment decisions to become more competitive in U.S. and foreign markets. We hope your schedule will permit such a meeting in the near future.

Sincerely,

ALEXANDER B. TROWBRIDGE,
President.

Attachment.

COMMENTS OF THE NATIONAL ASSOCIATION OF MANUFACTURERS ON THE PETITION OF MAY 3, 1982, BY HOUDAILLE INDUSTRIES FOR THE EXERCISE OF PRESIDENTIAL DISCRETION AS AUTHORIZED BY SECTION 103 OF THE REVENUE ACT OF 1971, JULY 30, 1982

The petition for withdrawal of investment tax credits under Section 103 of the Revenue Act of 1971, which was filed by Houdaille Industries, Inc. on May 3 is formerly very narrowly focused. It requests denial of this credit for two products only: numerically controlled (NC) machine centers and numerically controlled punching machines from Japan.

In general, it is not the policy of the National Association of Manufacturers to comment on individual import cases. The Houdaille petition, however, is in our view a landmark case with broad implications for U.S.-Japan commerical relations, for

U.S. trade policy, and for U.S. industry. If the case as set forth by the petitioner is substantially correct, and we have no reason to doubt that it is, then in our view it is essential that the President provide adequate relief. Not to do so could jeopardize the industrial revitalization that is the bedrock of America's future.

The Comptroller General's 1979 report, "United States-Japan Trade: Issues and Problems," notes important similarities between the machine tool industries in the two countries. They are relatively small in each country and highly fragmented. In 1975, for example, there were only ten U.S. machine tool firms with more than 1,000 employees but over one thousand plants with forty-nine employees or less. Comparable figures for Japan show 35 plants with 300 employees or more and 1,480 plants with 49 or less.

Two other similarities should also be noted. First, machine tools have an economic importance beyond their dollar value as they are critical to a variety of industries from aircraft to farm machinery. Second, the industries are strong ones in both countries. In 1981, the United States was the world's largest producer with sales of $5.15 billion and Japan the second largest with sales of $4.86 billion. Though the U.S. has had a negative balance of trade in machine tools since 1978, it is still an important exporter, and in 1981 sold more than $1 billion in machine tools abroad. Thus, in comparing the two industries, one is comparing strengths of the two economies, not strength of one and a weakness of the other.

The starting point for the petitioner is the phenomenal and for it painful increase in Japan's share of the U.S. market for the products at issue. It notes that in 1976 Japan enjoyed 3.7 percent of the U.S. market for (NC) machining centers. By 1981 Japan had 50.1 percent of the machining center market. The increase in Japan's share of the U.S. market for NC punching machines was only slightly less dramatic, going from 4.7 percent in 1976 to 37.6 percent in 1981.

The allegation is that this was achieved by means of a government sponsored cartel. The petitioner might as well have said it was achieved as a result of Japanese industrial policy. Presumably it did not because a foreign industrial policy per se provides no explicit basis for a petition under U.S. law, but one that involves "tolerence of international cartels" does. It is, however, precisely because the petitioner has demonstrated the breadth and power of Japanese industrial policy that his case commands the attention of anyone concerned about preserving and strengthening the U.S. industrual base. Japan is, of course, not unique in having an industrial policy/or policies. Certainly, though, those policies are uniquely successful, with consequences of some importance for U.S. industry in American, Japanese, and third country markets. Their rationale was well explained in 1970 by a minister for Japan's Ministry of International Trade and Industry speaking before the OECD Industry Committee:

"After the war. . . Japan's first exports consisted of such things as toys and other miscellaneous merchandise and low-quality textile products. Should Japan have entrusted its future in the theory of comparative advantages in these industries characterized by intensive use of labor?

". . . If the Japanese economy had adopted the simple doctrine of free trade and had chosen to specialize in this kind of industry, it would have almost permanently been unable to break away from the Asian pattern of stagnation and poverty. . .

"The Ministry of International Trade and Industry decided to establish in Japan industries which require intensive employment of capital and technology, industries that in consideration of comparative costs of production should not be the most inappropriate for Japan, industries such as steel, oil refining, petrochemicals, automobiles, aircraft, and electronics, including electronic computers. From a shortrun viewpoint, encouragement of such industries would seem to conflict with economic rationalism. But from a long-range viewpoint those are precisely the industries of which income elasticity of demand is high, technological progress rapid, and labor productivity rises fast."

Cartels provide a means by which the Japanese Government can identify and work with an industry. They are at the heart of Japanese industrial policy. It is our understanding that Japan has informed the OECD that it formally recognizes 469 cartels. Admittedly, many of these are small concerns with little impact on international trade. The figure does not include a number of cartels of major Japanese industries, like the machine tool industry, that do have such an impact. Clearly collections of firms subject not only to regulation but to direction from central authority, whether it be the Government of Japan through its administrative advice procedure or their trade associations, are in essence cartels. The petitioner identifies the cartel of interest to him as one made up of the largely overlapping memberships of the Japan Machinery Exporters Association and the Japan Machine Tool Builders Association. He traces the Japanese government's involvement with this cartel from the

First Extraordinary Measures Laws of 1956 through the successors of that legislation, namely the Extraordinary Measures Law for Promotion of Specific Electronic Industries and Specific Machinery Industries Law No. 17 of 1971 and the Extraordinary Measures Law for Promotion of Specific Machinery and Information Industries, Law No. 84, of 1978. These laws, he notes, made possible domestic anticompetitive relationships within the industry and the skewing of orders to selected firms in the name of rationalization. According to the petition, "there appears to be no risk (to the cartel) of prosecution (under Japan's antitrust laws) as long as (it) complies with MITI guidance, regardless of how anticompetitive that guidance may be."

Further, the report is replete with examples of other, more direct forms of government involvement and assistance, including the following:

(1) Import protection. The petition alleges that for a considerable period Japan did not permit the importation of machine tools for which there were Japanese equivalents. This protection served to ensure high domestic demand and thus lower unit costs. Further, the "monopoly profits" that flowed to Japanese producers as a result of these restrictions strengthened their ability to price exports more competitively than would otherwise have been the case.

(2) Subsidization. The petition refers, inter alia, to the fact that in the '50s, favored industries, including the machine tool industry, were licensed to import sugar, the value of the license being assured by the government's quota on sugar imports. Additionally, the attorney for the petitioner has informed us that between 1954 and 1981 the machine tool industry received approximately $1.46 billion in the form of receipts from national bicycle races, these funds to be used for industry rationalization, export promotion and research development.

(3) Taxation. Several provisions of Japanese tax law explicitly favor the machine tool industry.

(4) Finance. Japanese banks have provided significant loans to the industry to enable it to sell on deferred payment terms to the domestic Japanese market, an option not open to American and other foreign competitors in Japan.

These are, of course, only elements of the Japanese industrial policy with respect to machine tools, not an exhaustive description. It might appear that some of these practices could provide a basis for action against Japanese machine tool imports other than that taken and requested by the petitioner. In our view, the petitioner has done a service to American industry by focusing on the relationships of these practices to a cartel. Such a focus permits one to consider the problem not in terms of one or another practice which may or may not be a specific offense under U.S. or international law but in terms of the unique challenge to American industry of Japanese industrial policy. United States law may not be fully adequate to deal with foreign industrial policies that hurt U.S. companies and U.S. industry; it is not, however, bereft of remedies.

Because of the Houdaille petition, it is no longer possible to argue that advanced and healthy U.S. industries are immune from the injurious effects of foreign industrial policies. It is, therefore, important to demonstrate that were the danger of such policies is perceived, it will be addressed. Accordingly, the National Association of Manufacturers urges the Administration to take effective action with respect to NC machining centers and NC punching machines from Japan if it concludes that the allegations of the Houdaille petition are substantially correct.

STATEMENT OF ROBERT M. FREDERICK, LEGISLATIVE DIRECTOR, NATIONAL GRANGE

I am Robert Frederick, Legislative Director of the National Grange with offices at 1616 H Street, N.W., Washington, D.C. I appreciate this opportunity to present the position of the National Grange on S-2300, "Fair Practices in Automotive Products Act," a bill to establish domestic content requirements for motor vehicles sold in the United States. The Grange strongly opposes the legislation and urges its defeat.

The National Grange is a volunteer, non-profit, family farm organization. Our 425,000 members are located in 41 states and our purpose is to serve the total interest of the rural community and the Nation. Thus, policies and programs of the Grange pertain to a broad array of circumstances affecting the lives of farmers and rural residents—they result from member action generated by total community and national interest—not by agricultural interest alone.

The basic trade policy of the Grange was adopted many years ago and has been reaffirmed each year.

"The National Grange supports the principle of expanding international trade through trade agreements under which tariffs and non-tariff barriers to trade can be progressively reduced and eliminated on a reciprocal and mutually-benefitting basis. A prosperous and expanding world economy is vital to the economic progress of the United States and to the attainment of peace. The traditional aim of our foreign policy should be to bolster our domestic economy by expanding international commerce on a basis which is equitable and which will be of muutal benefit to all trading nations.

In adopting measures to expand trade, we recommend that the U.S. continue to adhere to the principles of the General Agreement on Tariffs and Trade under which our nation has taken the lead in working toward a reduction in the obstacles to trade and in expanding trade on the basis of sound economic principles."

In light of this policy we strongly oppose S-2300. We agree with Ambassador William Brock's report that the bill "is the worst threat to the international trading system and our own prosperity to be put before the Congress in a decade." We in agriculture would view the passage of S-2300 as a disaster. U.S. farmers, who depend on export trade for one-fourth of their income and as an outlet for the harvest from two-fifths of their cropland, could be severely damaged, particularly in their two leading markets—Japan and the European Community (EC). The repercussions would be felt through rural America as net farm income continued to dwindle.

With more open markets made possible by several multilateral negotiating rounds under the auspices of the GATT, our agricultural exports have grown rapidly to an annual level of well over $40 billion—an especially vital contribution to our trade balance during recent years when we have been faced with massive increases in national costs of petroleum product imports.

S-2300 if implemented would violate our agreements under the General Agreement on Tariffs and Trade (GATT), and would almost certainly lead to a retaliation by Japan and the E.C. This would put at risk some $15 billion yearly in U.S. agricultural exports to those countries.

U.S. farmers are still suffering the economic effect of the 1980 Soviet Grain Embargo. Our share of that market dropped from approximately 70 percent to a low of 25 percent and climbed back to approximately 30 percent in 1982.

It is highly unlikely that our farmers wil ever again be the major exporter to the Soviet Union. When our grain was embargoed, the Russians sought and found alternative suppliers who were eager to divert sales from historic markets to the Soviets. World trade in agriculture is highly competitive and our competitors quickly increased production to supply the Soviet markets as well as recapturing a portion of the markets they shorted. The Soviet Union has signed six long-term agreements with our competitors to assure them of an interrupted grain supply. The passage of S-2300, because of the possible retaliation by our customers against our agricultural exports, would be like placing an embargo on our own exports. We would be shooting ourselves in the foot.

Japan is our largest single country market for farm products with the total reaching $6.6 billion in 1981. It is our largest feed grain market and is one of the top markets for wheat and soybeans. Japan is a realiable customer, but we do face strong competition from other agricultural exporting nations, such as Canada, Brazil, Argentina and Australia. Japan could retaliate against a devastating blow at its auto market by shifting some of its purchases to those competing suppliers. Need I remind the Committee that following the ill-advised embargo of soybeans to Japan during the mid-seventies, Japan helped to develop expanded soybean production in Brazil and that country is now our biggest soybean competitor.

Although the loss in U.S. farm exports to Japan would be offset in the short-term by a diversion of trade to markets left unfilled by our competitors as they move to meet greater Japanese demand, the long-term loss would be great. Competitors would expand production to meet both their traditional and and expanded Japanese markets and the U.S. share of world markets would decline—much the same as that which took place folowing the 1980 Soviet embargo.

Our government has been continually pressing the Japanese for liberalization of their import structure particularly the system of quotas, high tariffs and non-tariff barriers. The new Prime Minister of Japan has made some positive statements regarding agricultural trade with Japan. It is anticipated that when he visits this country in January he will bring with him some new proposals to liberalize their trade structure. Passage of a domestic content bill would seriously jeopardize these negotiations and lead to retaliation by Japan against U.S. agricultural exports.

The situation would be equally distressing with respect to the European Community, which imported a total of $9.1 billion in agricultural products from the U.S. in 1981. Together, Japan and the EC received 36 percent of our total agricultural exports. We would be hard pressed to find alternative markets for this amount of product.

The EC has been seeking for nearly 20 years to overturn its commitments in GATT to import oilseeds, oilcake, and nongrain feed ingredients such as corn gluten, free of import duties and restrictions. The enactment of S-2300 would provide just the excuse needed by the EC to restrict these imports.

We are currently engaged in several GATT cases against the EC export subsidies and related agricultural export policies. We should not take any legislative action that would lessen the pressure on the Europeans to change trade policies, which affect the entire international agricultural trading system.

A radical, unwise move such as that signaled by enactment of S-2300 could induce other countries to respond with similar protectionist devices which could lead to a stepped-up, spiraling series of moves to the critical disruption of world trade and a devastating decline in our national export markets. We believe that passages of S-2300 would not be a wise decision in dealing with these critical international trade problems which affects all of our trade opportunities and could have tremendous and unpredictable consequences of damage to our national interests.

That concludes our statement. I would be glad to respond to any questions you or members of the Committee may have regarding the position of the National Grange.

Thank you.

STATEMENT OF MICHAEL HALL, WASHINGTON REPRESENTATIVE, NATIONAL CORN GROWERS ASSOCIATION

Mr. Chairman and subcommittee members, the National Corn Growers oppose the passage of the domestic auto part legislation, as well as any trade restrictive laws. The long-term effect of such legislation, if enacted, would be more damaging to the United States than the January 4, 1980, grain embargo. Such domestic U.S. content legislation would be equal to the disasterous trade measures of the 1929 Smoot-Hawley Act.

The National Corn Growers Association (NCGA) is made up of corn producers from 17 states, with the purpose of promoting the general welfare of U.S. corn farmers by maintaining and developing domestic corn production and price and income support programs consistent with a market-oriented grain economy. With members in 48 states, the National Corn Growers Association includes state affiliated organizations in Colorado, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, Missouri, Nebraska, New York, North Carolina, Ohio, Pennsylvania, Virginia and Wisconsin. These states account for over 90 percent of total U.S. corn production.

We appreciate the opportunity of testifying today in order to express serious reservations and opposition to possible enactment of this legislation. H.R. 5133, if passed, would pose serious problems for the U.S. corn industry through the potential implementation of retaliatory measures that would jeopardize current and future export markets for corn and corn by-products.

As you well know, the U.S. agricultural industry is a bright element in an otherwise dismal balance of payments that exists between the United States and her trading partners. This remarkable record of agricultural exports not only benefits U.S. farmers, but also returns needed revenue to a now struggling U.S. economy. The U.S. corn industry plays a vital role in the overall effort to improve the U.S. balance of payments through increased grain exports. Although we have achieved a successful record of corn and corn by-product exports, even larger volumes will be necessary to sustain a viable U.S. corn economy. U.S. corn farmers produce and harvest a commodity valued at $22 billion annually. In addition to the significance and importance of this crop to the domestic economy, U.S. exports of corn have averaged over 50 million tons during the past five years. These exports, valued annually at $8 billion, create numerous jobs for the U.S. labor force and return valuable hard currency to the U.S. economy.

U.S. corn farmers readily acknowledge that artificial trade barriers employed by other countries are a definite deterrent to expanded agricultural exports. The imposition of feed mixing requirements, the grain resell regime, and import quotas on meats in Japan, as well as variable import levies, commodity export subsidies, and potential import quotas on corn by-porducts in the European Economic Community (EEC) have all served to undermine the position of U.S. agriculture in world markets. Moreover, we believe these are crucial obstacles that must be overcome if we are once again to enjoy a profitable era in corn farming.

In order to achieve these objectives, we have, and will continue, to explore both official and unofficial avenues to negotiate solutions to existing trade disputes. It is important, therefore, that the position of the U.S. agricultural industry not be weakened at such a critical time in our efforts to secure equitable solutions to these problems. The protectionist sentiment that is building in the United States must not be allowed to overshadow the serious ramifications that may result from legislation of this nature. The passage of H.R. 5133 would simply "open the door" for retailiation on the part of countries affected by the mandate of this bill—countries, I might add, that are valuable export markets for U.S. agricultural commodities.

It is not realstic to suggest this legislation is single-issue oriented and, therefore, can be confined to its potential impact on the U.S. automobile industry. H.R. 5133 will have reverberating effects throughout the entire U.S. economy. Historically, protectionist and other trade restrictive measures have produced similar results. The National Corn Growers Association quickly recongized this when the partial grains embargo was imosed against the Soviet Union in January 1980 by President Carter. In order to support our position, the association commissioned a study on the economic impact of the grains embargo. (For your information, we are providing you a copy of the "effects of the 1980 and 1981 limitations on grain exports to the USSR on business activity, jobs, government costs, and farmers" prepared by Schnittker Associates for the National Corn Growers Association to be included in the record.) The findings were overwhelming—the embargo cost the entire U.S. economy reduced value of inland transportation at $175 million, reduced value of ocean shipping at $365 million, balance of payments losses of up to $4.4 billion, $11.4 billion in overal national output, 310,000 jobs, and $3.1 billion in lost personal incomes earned in the United States. I would propose, Mr. Chairman, that the possibility of similar adverse effects would not be a reasonable price to pay for the enactment of domestic content legislation.

The required ingredient in developing and demonstrating the reputation of being a reliable partner in the international marketplace cannot be achieved by such "reliability" on a sectorial basis in international trade. Past embargoes and current restrictions on U.S. agricultural exports, along with restrictions on U.S. exports of equipment and technology to Western European firms engaged in trade with the Soviet Union on the gas line project, only reinforce the foreign perception that the United States has, is and will continue to attempt to use trade in any sector to influence political behavior and performance of governments. We are firmly convinced the implementation of domestic content legislation will only serve to prolong this dilemma, and exacerbate an already serious situation.

Our organization must point out that Thomas W. Gleason, the President of the International Longshorement's Association (ILA) called H.R. 5133:

"A fragmentary approach that will complicate our own responses, hamstring our negotiations and create far more dust than it can settle."

In addition, the U.S. Trade Representative, William Brock, in assessing the provisions of H.R. 5133 stated:

"We must not enact laws which will force U.S. trade policy to require bilateral, sectorial, or product-by-product reciprocity."

The National Corn Growers urge you and your colleagues to reject H.R. 5133 because of its complete import protectionist purpose. It is short-sighted legislation, which could only create greater trade tensions between the United States vis-a-vis Europe and Japan.

Moreover, the passage of H.R. 5133 would violate the indivisibility of trade among countries in non-strategic goods and commodity. International trade—agricultural and industrial—must move on a "two-way" street. H.R. 5133 would simply stop such trade flows.

Mr. Chairman, we will be pleased to attempt to answer any questions you and your committee members may have about our statement.

STATEMENT OF AMERICAN HONDA MOTOR CO., INC.

American Honda Motor Co., Inc., a U.S. corporation chartered in California, appreciates the opportunity to present its views on S. 2300, Fair Practices in Automotive Products Act, to the Committee. S. 2300 imposes content requirements on companies selling over 100,000 vehicles annually in the U.S. market. By 1985, the bill requires companies of Honda's size to achieve 75 percent U.S. content in its fleet. We strongly oppose S. 2300 and have special concerns because Honda is a Japanese manufacturer which began U.S. car production in Marysville, Ohio, on November 1, 1982.

In January 1980, Honda announced its intention to build a U.S. automobile factory. The plant is one million square feet and is a fully integrated facility, consisting of stamping, welding, painting, plastic injection, and final assembly operations.

The plant will produce 150,000 Accords a year by mid-1084 and will employ 2,000 American workers.

The total investment in the U.S. car plant alone is over $250 million. $250 million is a very large sum for Honda. It is more than the cumulative total of all of Honda's investments outside of Japan during the past 20 years. More than 80 percent of this sum has been spent on the purchase of machines and equipment from American manufacturers. To enable high-quality production, the plant is equipped with sophisticated machinery, some of which does not even exist at our Japanese factories. Only a small number of special-purpose machines were imported from Japan.

From initial production start-up, Honda will procure in the U.S. such items as steel, plastic resin, paint, tires, batteres, and seats, utilizing over 40 American suppliers. The local content ratio for our U.S. production at the outset will be about 50 percent.

These figures show the degree of commitment Honda is making in the United States. Honda is paying for the plant with the profits it earns in the U.S. We are, thus, reinvesting in the U.S. the profits we make here. Mr. Douglas Fraser, President of the United Auto Workers, in his appearance before the House Foreign Affairs Committee on June 2, 1982, stated that relative to its size, Honda is making a good commitment to output and employment in the United States.

In addition to the financial and technological commitments Honda has made, Honda is committed to retaining high-quality production. We believe this bill limits our flexibility to do so as it prevents us from using the best combination of resources. The bill also inhibits us from attaining optimum efficiency and competitiveness.

While we oppose the bill in principle, we have some specific problems with it because of its impact on our U.S. investment. These consequences of S. 2300 appear inconsistent with efforts to encourage investment in the U.S. by foreign automobile manufactureres. Rather, they impose an additional burden on foreign manufacturers who have built, or are building, production facilities in the U.S.

Due to the existence of the voluntary restraint agreement, our sales have declined from 375,000 in 1980 to 370,000 in 1981, to a projected level of 350,000 for 1982. This occurred just as Honda was investing $250 million in its U.S. car plant. Now, local content requirements could adversely impact Honda even further.

Since Honda will produce only the Accord model at our U.S. plant, we must continue to import other cars to complete our product line. Any foreseeable level of domestic content in the cars built in our U.S. plant over the next three years will not be sufficient to achieve the required fleet-wide domestic content ratio when averaged with our imported cars.

This bill poses several other problems to Honda. The leadtime necessary to comply with the local content requirements is not adequately taken into account. Honda is trying to increase its sourcing of U.S. components, but matching specifications, quality, and cost considerations with suppliers is a time-consuming process.

The penalty is severe and does not take into account a manufacturer who made a good faith effort to comply. Ultimately, a manufacturer could be forced to cut its sales back to a level at which local production is no longer economically feasible.

The bill also faces other difficulties in application and execution. For example:

(1) what is an automotive product (e.g., paints, resins, and fabric)

(2) how are reimported items counted? (e.g., U.S. aluminum, reimported as engines by auto manufacturers)

(3) how far back do you count foreign content? (e.g., subassemblies)

American Honda is sensitive to the adverse impact the recession has had on the U.S. motor vehicle industry. However, S. 2300 is not the vehicle for economic recovery. We are, however, firmly convinced of the basic, underlying strength of the auto industry and have no doubt that the efforts for recovery now under way in the United States will soon bring about the re-emergence of a strong American auto industry. We hope to see our U.S. operation become a member of this strong industry.

STATEMENT OF LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

The League of Women Voters of the United States, a non-partisan citizen organization, has members in all 50 states as well as the District of Columbia, Puerto Rico and the Virgin Islands. The League of Women Voters welcomes this opportunity to express its views on S 2300, the Fair Practices in Automotive Products Act.

The LWVUS opposes the use of domestic content requirements in general and as applied in S 2300 specifically. It is our conviction that such legislation would jeopardize America's interest in expanding worldwide trade. Also, by requiring that cars sold in the US market contain a mandated percentage of American-made parts, it would have virtually the same effect as auto import quotas, thereby raising consumer costs and limiting consumer choice.

We believe that there are substantial reasons for opposing domestic content legislation:

(1) Domestic content requirements are expressly prohibited in Article III of the General Agreement on Tariffs and Trade. If domestic content becomes law, GATT signatories can be expected to seek compensation for lost exports to the US in excess of $15 billion.

(2) The proposal would be tantamount to an absolute import quota far more restrictive than the current "voluntary" Japanese import limitation. S 2300 would require new cars sold in the United States to have a certain level of American-generated domestic content, based on a formula related to the wholesale price for cars sold by a foreign or domestic company. Any foreign company not meeting the domestic content standards would have to cut back its auto exports to 75 percent in subsequent sales years. These requirements would therefore have the same practical effect as auto import quotas. In fact, it is difficult to see how the domestic content bill could possibly be enforced without formal quota restrictions.

(3) The domestic content legislation would undermine US efforts to eliminate domestic content requirements by other nations. No other developed countries except Australia, Greece and Spain and no country that produces for the world market has domestic content requirements for automobiles. US adoption of such measures invites retaliation that might expand to US exports in agriculture, aircraft, computers and electronic equipment. And, with one out of seven American jobs in manufacturing dependent on exports, we cannot afford to risk further erosion of our export potential. Moreover, passage of such a law would negate the Administration's current efforts to secure trade liberalization measures by other nations, especially Japan and the European Community.

(4) The measure is costly, inflationary and inefficient and would force auto prices to jump significantly. Domestic content requirements will raise the price to consumers of popular foreign imported cars by as much as 10% and will also limit US companies' flexibility to cut their costs by using some less expensive foreign parts now and in the future.

(5) The proponents' claims for the job creating potential of the legislation are highly problematic. If auto sales in the United States were to double by 1985, domestic content laws (according to the Department of Commerce) would create 200,000 jobs at the most in the auto sector—not the 800,000 jobs claimed by the bill's advocates. Also a substantial part of that expansion would be offset by the job which would be lost due to potential cutbacks in the US facilities to distribute and transport auto imports: by the closings of foreign car dealerships; by the laying off of port workers who handle auto imports; and by the abandonment of existing US assembly plants for imported cars. If, as is expected, there is foreign retaliation against US exports, the effect would be a net loss of jobs of 150,000, according to the Congerssional Budget Office.

The League of Women Voters has a long standing interest in world trade going back to the 1920's. We have been a consistent and strong supporter of a liberal US trade policy, believing that the political and economic interests of this country and its citizens are best served by such a policy. In addition, it paves the way for political harmony with other nations, stimulates economic development at home and abroad and expands consumer choice. It is not enough to support liberal trade policies in generalities. Support must come in the form of positions on specific legislation that either advances or inhibits a more liberal trading system. S 2300 expressly violates international trade agreements, risks the threat of retaliation by our foreign trading partners and severely limits consumer choice. Members of the League of Women Voters therefore urge the Committee on Commerce, Science and Transportation and the Congress to oppose this dangerously protectionist bill.

STATEMENT OF ROBERT M. McELWAINE, PRESIDENT, AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION

Among Mark Twain's writings, Tom Sawyer's ploy to gull his friends into whitewashing a fence is more celebrated than the reaction of an entire town to the "Royal Nonesuch" scam of the Duke and the Dauphin in "Huckleberry Finn", but both incidents are equally illustrative of human nature.

It is the anecdote from "Huckleberry Finn," that may help to explain the reaction of the United States Congress to the United Auto Workers' duplicitous approach to domestic content legislation. In "Huckleberry Finn," a theater audience, on learning they had been bamboozled by a pair of con artists, decided to postpone their revenge until the whole town had been taken in, so they would not be isolated in their gullibility.

The United States House of Representatives, rather than admit they had been hoodwinked by a bill that was sold to them as an anti-Japanese measure, has apparently decided to pass the bill anyhow and let the Senate cope with the issue of misrepresentation. It is up to this committee to expose the true thrust of this legislation without sparing the feelings of those who were flimflammed by the UAW into believing that this was really a way to get back at the Japanese for their restrictive trade policies.

Testimony before the House Trade Subcommittee gave strong evidence that domestic content legislation was actually aimed at GM, Ford and Chrysler's "world car" concepts, and that imports were only peripheral targets of the legislation. Unfortunately, there was not time for the Committee report to be studied before the bill went to the floor. The most convincing evidence of the UAW's true interest in the legislation was the willingness of the union to accept a substantial softening of the requirements for imported cars in the second version of the bill—the one that eventually reached the House floor—and the absolute intransigence of the UAW regarding the 90 percent domestic content requirement for U.S. manufacturers.

The strategy for the 1980's adopted by the domestic auto manufacturers is to utilize their far-flung international productive capacity and their world-wide network of subsidiary and affiliate companies to achieve economies of scale that will make them competitive with their Japanese counterparts. This strategy will necessarily export some American jobs, but the alternative is to become permanently noncompetitive in world markets, to abandon American leadership in the automotive field and to become a small, national industry producing a low volume of cars at exorbitantly high prices. It is the purpose of the United Auto Workers to use the Federal government to force this alternate strategy on the Detroit manufacturers through passage of S 2300.

The consequences of such actions would be to preserve some few highly paid jobs among U.S. autoworkers, at disastrous cost to the consumer, the economy and employment in other sectors.

Presented at its face value, such legislation would never even have cleared a committee in the House. But, in today's highly charged emotional climate regarding Japanese imports and the need to create jobs for unemployed auto workers, when presented as an import-restraining measure, HR 5133 gained more than 220 sponsors in the House. Even the "Royal Nonesuch" would have to take a back seat to the success of this feat of flimflammery.

Proponents of domestic content legislation claim that the domestic manufacturers can "easily" meet a 90 percent domestic content requirement. Probably, they can—in 1982, although there is evidence that the requirement might be a tight fit in some cases.

According to almost all authoritative sources, however, almost no domestic manufacturer could meet a 90 percent requirement—or anything approaching it—by the end of the decade. General Motors is generally regarded as having the highest domestic content of any U.S. manufacturer, yet an analysis of announced foreign sourcing by GM indicates that, by 1985, GM's fleet average will be well below 85 percent, and dropping.

By 1984, GM is expected to be receiving 200,000 Isuzu passenger cars from its Japanese subsidiary. In addition, a Toyota-GM joint venture is expected to provide from 250,000 to 400,000 U.S.-made Toyotas from an idled GM California plant. These cars probably will average less than 40 percent U.S. content. Add to these the major components GM will be sourcing from their own foreign affiliates—gasoline and diesel engines, transmissions, etc.—and GM's domestic content could not possibly achieve a 90 percent level.

The United Auto Workers' drive for domestic content legislation was first enunciated in 1981, shortly after the U.S. Department of Transportation revealed in a report to the President, what the domestic makers' strategy was to be. The report stated:

"Thus two approaches to world scale production are evolving—centralized and decentralized. The Japanese represent the first, taking advantage of their domestic labor force, achieving low cost production through closely coordinated, tightly integrated and centralized production facilities, and then shipping the product around the world. Although assembled in other countries, even Japanese knock-down kits are dominated by Japanese made parts.

"In contrast, as was seen from the above, many of the other multinationals are building uniform components on a very large scale, distributing the production facilities through many countries, and using this strategy to gain access to markets that trade barriers would otherwise close. In so doing, it becomes the multinational's goal to move newly developed technology into other countries rapidly, so that the previous competitive advantage of high technology countries now diminishes rapidly. It is unclear which system, centralized or decentralized, will eventually prove to be the more stable and competitive. Some observers feel the Japanese auto industry itself faces formidable competition in the form of escalating costs for fuel and material and the proliferating production of fuel-efficient, high technology world cars."

Such a pronouncement fell on the ears of the United Auto Workers leadership like a tocsin of doom. Already suffering near-record unemployment from a prolonged slump in domestic auto sales, the union now faced a further deterioration in jobs through a deliberate strategy on the part of the U.S. producers to increase the imported content of their "American" cars. Their answer was a law requiring the Detroit manufacturers to maintain a high level of domestic content. But how, in the face of the severely depressed state of the domestic industry, to persuade Congress to impose such restrictive and cost-raising handcuffs on the already staggering Detroit companies?

The answer, of course, was to present it as an anti-Japanese Buy American, save-the-jobs bill.

Take a look at the hallucinatory UAW estimate of jobs to be created by this legislation. Let the air out of the claims that Japanese manufacturers will happily close down their Japanese factories and recreate them in the United States and what is left is the UAW conviction that the bill will "save" some 387,000 jobs in U.S. manufacturing now endangered by the "world car" strategy of Ford, GM and Chrysler.

(The UAW jobs claims for foreign factories to be established here are so exaggerated as to be laughable. They project, for example that a Honda factory would create 76,000 jobs. The Honda factory in Ohio will employ little more than 2,000 workers. They project that additional Volkswagen factories would provide almost 30,000 jobs. The struggling VW factory in Pennsylvania provides fewer than 5,000 jobs.)

In order to remain competitive in the global auto market and to reclaim its leadership, the United States auto industry must re-establish the economies of scale it once enjoyed. Such economies are the true measure of productivity, of labor cost, and of profitability.

One of the basics of automobile production is that the more volume you produce of a given model or component, the less it costs to produce. A model produced in a volume of a million or more units may cost only two-thirds as much per unit as the same model produced in a volume of a few hundred thousand. That is the complete and simple explanation for the rash of joint ventures, cross-sourcing and foreign sourcing that have been the most significant developments in the automobile industry in recent years.

It is far more economical to purchase 200,000 small cars from a firm producing a million of the same model than it is to establish a factory to produce 200,000 similar cars. It is far cheaper to buy a half-million engines from a firm manufacturing two million of them than it is to produce a half-million at your own plant.

In the decades from 1950 to 1979, American manufacturers achieved a level of profitability that enabled them to pay as much as $1.2 million a year to a single executive; to enter into labor contracts that made their workers among the world's highest paid; to issue dividends to their shareholders that make their stocks both coveted and expensive. They managed this envied level of profitability by achieving economies of scale unmatched and unprecedented in the automobile industry.

Producing up to ten million vehicles annually for the world's largest car market, they concentrated their production on vehicles of remarkable similarity—heavy, steel-framed cars with V–8 engines and rear-wheel drive. They enjoyed interchangeability of parts and components and were so similar in design that a Cadillac cost only a few hundred more dollars to produce than a Chevrolet, yet sold for thousands more.

These economies of scale vanished in the aftermath of the OPEC revolution. Forced to re-build their entire model fleet to meet new demands for fuel efficiency, domestic manufacturers lost their advantages of scale. This loss has been further exacerbated by a decline in U.S. sales of nearly four million units since 1978's peak year.

Now it is the Japanese who enjoy the advantages of economies of scale. By concentrating their productive facilities in their home country and exporting up to forty percent of the finished product, the Japanese have achieved economies of scale that give them a competitive advantage over the American firms that have, as a policy, scattered their production centers over the face of the globe.

It is economies of scale, not lower labor costs, inventory controls or better management that have given the Japanese manufacturers the cost edge over Detroit. Labor costs, after all, are measured with a highly elastic ruler—the currency exchange rate. The Japanese labor cost is generally measured at $12 an hour, compared to more than $20 an hour for domestic labor costs. That ratio, however, is at 260 yen to the dollar. At a more reasonable and realistic 180 yen to the dollar, the Japanese worker's cost goes up to $17 an hour. That's hardly slave wages and would make the labor cost differential between Japanese and American cars negligible.

Changes in the exchange rate will not affect the economies the Japanese have achieved through concentrated volume production. It is this advantage that concerns the American manufacturers far more than labor costs, inventory controls or quality circles. The growing necessity of overcoming this volume advantage led the American producers to the "world car" concept. By producing major components at sufficient volume to supply global needs at individual factories scattered throughout the world, then assembling them into finished product in the market country, they calculated to match the Japanese in volume efficency and economies of scale.

It is this concept that is the principal target of the United Auto Workers and the domestic content legislation before this committee. Proponents of the bill have cleverly taken advantage of the current emotional climate concerning Japanese auto imports to mask the true purpose of the bill. Imported automobiles are merely targets of opportunity in this campaign—it is Detroit's world car concept that is the main objective.

Seen in this light, the bill now before this committee remains bad law and worse economics. As drafted, it would have its most adverse impact on our domestic manufacturers and those foreign manufacturers that are committed to production in the United States.

Nissan has already indicated that domestic content legislation would make them re-think their commitment to a $300 million investment in a Tennessee light truck factory. The impact of the bill on General Motors' venture with Toyota cannot be estimated accurately, but it would seem obvious that if the Toyota deal brought GM's domestic content below 90 percent, the factory would never be opened under S 2300.

Meanwhile, however, under some interpretations of the substitute bill, almost any importer might achieve a domestic content level of as high as twenty or twenty-five percent, without any real change in manufacturing procedures or sourcing. This, of course, would hit very hard at Nissan and Toyota, but it could very well result in no reduction in imports at all, as Isuzu, Suzuki, Mitsubishi, Subaru, Mazda, Fiat, Renault, et al., rushed to fill the hole in the U.S. market.

Consequently, the results of S 2300 would be (1) to make the United States automobile industry permanently non-competitive by closing its only available option to achieve economies of scale comparable to those of the Japanese; (2) it would reduce imports from Toyota and Nissan by one-half to two-thirds; and (3) it might well foreclose the promising development of foreign production capacity in the United States.

Here we return again to the theme of this testimony—economies of scale. Fully 85 percent of imported car sales in the United States is represented by models whose annual sales volume is far below the miminum required to make U.S. production profitable, practical or feasible. Of all the imported cars sold in this country, only the Toyota Corolla is sold in sufficient volume to make U.S. production appeal even marginally practical.

Even the Corolla could be produced profitably only if the manufacturer were able to take advantage of the economies of scale inherent in the volume production of major components in Japan. Under no circumstances would U.S. production be profitable at the 70 percent domestic content level that would be mandated by S 2300. The Volkswagen experience has made every world manufacturer all too aware of the financial pitfalls that accompany a commitment to U.S. production with a high level of domestic content.

Proponents of the bill have held out to the unemployed workers of the U.S. auto industry the hope that their desperation can be ended by a simple legislative fiat called domestic content. The anger and frustration of these workers when their hopes are dashed, as they inevitably must be if this bill is passed, can only be imagined.

Add to the rage of the disappointed auto workers the anger of the consumer, already reeling from sticker shock, when he finds the United States Congress has mandated a $1,000 and up increase in the price of his new car to protect the jobs of one of the highest paid segments of U.S. labor. One would have to assume that the position of those who have supported this legislation would become exceedingly uncomfortable.

One of the chief difficulties with the debate that has been conducted over this legislation is that it has largely ignored the real world in favor of the theoretical and hypothetical world of economists.

The United Auto Workers claim the measure would increase U.S. employment by more than a million jobs. Real-world experience does not bear out their hallucinatory projections. We calculate the bill would reduce import sales by as much as a million units a year. Assuming a one-for-one transfer of the embargoed imports to domestic car sales, this would presume a matching increase in domestic car sales. One doesn't need to ask economists what that would mean in terms of jobs. Over the past 15 years, we have had many examples of year-to-year increases in domestic car sales of one million units or more. The Bureau of Labor Statistics has the records of how many new jobs have resulted from such an increase. These records show that, over the years, a one million unit increase in Detroit sales has created, on an average, 33,000 incremental jobs in manufacturing, supplier and retail operations combined. Not a million; not nine hundred thousand; not even 868,000 as the UAW hypothesized initially; but 33,000 jobs.

At the same time, the loss of 40 percent of our imported car sales would close at least 2,000 of our 7,000 dealerships. We average 33 workers per dealership, so that's 66,000 American jobs lost right there.

The UAW claims that passage of HR 5133 would result in every major importer building handsome new factories in the United States and employing an astronomical number of workers. But in the real world, domestic content requirements discourage investment.

In the real world, Nissan planned a $500 million factory in Great Britain, to provide jobs for 5,000 British auto workers. But the Common Market refused to grant the product of the factory duty-free treatment under EEC tariff agreements unless the finished product contained 60 to 80 percent British domestic content. The factory has been placed in limbo and will not built unless this requirement is dropped.

The UAR claims that under a domestic content law, we would have a prosperous, thriving automobile industry, once more working at capacity to bring consumers new automobiles at competitive prices. But we don't have to accept their optimistic projections. We have the real world to study—a world where at least four nations have established domestic content requirements for automobilies. They have such laws in Argentina, Mexico, Australia, and Spain. The results indicate that, if you admire the Mexican or Argentine economy, you'll love domestic content laws.

All four of the automotive manufacturers operating in Argentina are losing money and in serious financial difficulties. Cars produced in that country cost from 30 to 50 percent more than the same models produced elsewhere. The same is true of Australia, where the domestic content requirement has added $3,000 to the cost of each vehicle produced. A recent study of the Australian auto industry concluded: "Extravagently protected by high tariffs and low import quotas, the Australian auto industry . . . is a luxury the country cannot afford." Everywhere domestic content laws have been tried, they have proved a failure.

Witnesses before this committee have claimed that there can be no retaliation by other nations against the domestic content law, because there has been no retaliation against similar laws in Spain, Mexico, Argentina, and Australia. Such claims ignore the relative importance of these markets to the manufacturing countries. The state of California alone buys more imported automobiles than all four of these nations combined. One must assume the Japanese would retaliate strongly against the substantial curtailment of their principal export market.

We cannot ignore the fact that, as the world's largest exporter, we are most exposed to trade retaliation. We export 65 percent more than does Japan; we are, therefore, 65 percent more vulnerable to trade action than even that export-conscious nation.

In his thoughtful new book "The Imperious Economy," economist David Galleo has called this the "age of economic gimcrackery" where "policy has been a restless search for magic tricks and formulas." In S 2300, we again see evidence of this desire to find some quick fix that will undo decades of neglect of capital investment requirements, years of lavish squandering of profits and a history of corporate adventurism into alluring foreign ventures at the expense of domestic decline.

We live in an age of gimmickry. People who have abused their bodies, neglected their health and permitted their lives to degenerate into chaos are unwilling to face the difficult regimen of proper diet, physical fitness and organizing their lives. Instead, they take a pill, to feel better.

Domestic content is just such a legislative pill. It may cause a temporary feeling of well-being, but it will solve none of the basic problems of the automobile industry and, indeed, will exacerbate many of them. There is no quick fix for Detroit; there is only the long, hard struggle to regain their competitive position.

They have come a long way since 1978. They have improved their product and their quality; they have reduced their bloated costs to a point where domestic manufacturers have become profitable even in the most depressed market in twenty years. They still have a long way to go.

Government can help them—not by legislative happy pills such as S. 2300, but by the dull and difficult work of tax reform that will help the manufacturers acquire needed capital, through such means as returning to this country some of the billions in profits they now hold overseas. Government can help by the tedious and difficult work of negotiating new international agreements governing performance requirements and investment incentives.

These are the hard, difficult choices we face. Government can only delay or perhaps permanently forestall the recovery of the domestic automobile industry by acting as a legislative Dr. Feelgood through such gimcrackery as domestic content laws.

We appeal to this committee and this Congress to give serious study to the difficult, long-term reforms needed to restore our automotive industry and to reject such quick-fix gimmicks as S. 2300.

QUESTIONS OF THE COMMITTEE AND THE ANSWERS THERETO

Question 1. The United Auto Workers (UAW) claims that S. 2300 will save American jobs. In your testimony, however, you state that domestic content legislation will result in the preservation of, "some few hightly paid jobs among U.S. autoworkers, at disastrous cost to the consumer, the economy and employment in other sectors." How do you reconcile your position with that of the UAW?

Answer. The United Auto Workers claims that 868,000 American jobs will be created or "saved" by domestic content legislation is based on faulty research and has no relation to "real life" experience in automotive employment.

The UAW claims, first, that 487,000 new jobs would be created by foreign manufacturers establishing new factories in the United States; common sense and the dictates of economies of scale indicate the bill would discourage foreign investment, not promote it. The bill, therefore, would decrease U.S. job prospects with foreign manufacturers.

The UAW also claims that domestic manufacturers, in the absence of a domestic content law, would phase out 386,000 jobs in favor of foreign sourcing. This is contrary to the 1982 UAW contract in which manufacturers specify they will not replace domestic jobs with foreign sourcing. No U.S. manufacturer concedes plans for any such wholesale lay-offs in the future.

In truth, the Domestic Content Bill will act simply as a new quota bill, reducing imports by 1.4 million units. Even assuming an unlikely one-for-one transfer of sales from the embargoed imports to domestic cars, not more than 46,000 jobs are likely to be created in the domestic industry.

Research based on Bureau of Labor statistics and covering fifteen years of domestic auto industry employment patterns, shows that each additional 1,000,000 car sales by U.S. industry provides 33,000 incremental jobs in total among manufacturing, supplying and retail industries. A 1.4 million sales increase, therefore, based on historic realities, not speculation, would provide 46,000 new jobs, not the 487,000 the UAW claims. This gain would be more than offset by the consequent closing of 2,000 imported automobile dealerships and the loss of their 65,000 jobs.

The legislation would also impose a tax on the American automobile consumer. A study by Harbridge House, a Boston based research firm, indicates that the voluntary restraint placed on Japanese automobile exported to the U.S. beginning in April 1981 added $1,900 to the price of every Japanese car sold in America and effectively decreased competition among Japanese automobile dealers. It solidified the markets for Toyota and Nissan while Mazda, Isuzu, and Mitsubishi have been locked into a minority share of the market.

The Harbridge House study also projected the experience the Japanese Voluntary Restraint Agreement and its effect on prices to predict that if Domestic Content legislation were enacted, it would further increase the price of a Japanese car by $1,300 and the domestic subcompacts would raise their prices sharply under the umbrella of price increases by their Japanese competitors. Domestic manufacturers have shown in the past that they are ready to follow import price increases, the report concluded, choosing the improved profit margin per unit, rather than to pursue growth in unit volume and market share by underpricing competitors.

In short, the domestic content legislation would increase prices for both United States and foreign produced automobiles, and, therefore, would stimulate the overall rate of inflation in the United States, with a further negative impact on the U.S. economy. While the legislation might offer minimal and temporary employment gains in the domestic auto industry, it could only be achieved through a transfer of jobs from other segments of the economy.

Offsetting the minimal and temporary employment gains for UAW workers would be the devastating impact the bill would have on the imported automobile industry, a major economic factor in the U.S. today. We estimate that 65,000 workers in 2,000 imported automobile dealerships would be among the job losses caused by a 40-percent reduction in imported automobiles while the Department of Commerce estimated the bill would eliminate 50,000 jobs at U.S. port facilities. Other negative effects would be felt by the principal American export industries, certain to be the object of retaliation by America's affected trading partners. Farm, aircraft, and electronic workers would be certain to feel the impact first.

Question 2. Please elaborate on your belief that the "belief car" concept of American automobile manufacturers is the principal target of the domestic content legislation. Why do you believe this is the case and how would the concept be harmed by enactment of S. 2300?

Answer. I think the proponents of the bill have been very clever in convincing the public that their real targets are those nasty Japanese cars, because there is an emotional climate in this country that they can take advantage of, by characterizing the legislation as a bill that will create jobs, and cut down on imports of those nasty Japanese cars. They have achieved a lot of support; they got 220 Congressmen to sponsor the bill; but imports are merely targets of opportunity. The primary target of this raid is Detroit's world car policy; and if they succeed in getting this bill passed, Detroit manufacturers will not be able to achieve the economies of scale that they must achieve if they are going to be competitive with the Japanese in the world market.

Producing millions of units of small cars allows economies of scale that have lowered costs for Japanese automobile producers to a level where American manufacturers have not been able to catch up. This has forced the American manufacturers into their world car concept. They decided the factories they have built all over the world—Spain, France, Taiwan, Korea, Germany, England, Brazil, Argentina—must be utilized to produce huge volumes of components and units in individual factories where they can achieve economies of scale and assemble the components in the market country where the car is sold.

In light of the vast foreign expansion of Ford and GM during the last 40 years, they have no other strategy that will enable them to remain viable and competitive in the world automobile markets in the eighties and nineties. The Ottinger substitute for the original domestic content bill is drafted to have its most adverse impact on our domestic manufacturers as well as on those foreign manufacturers who have committed themselves to production in the United States; and the latter list includes, in addition to Volkswagen, Honda, Nissan, and now Toyota, because Toyota has concluded nearly every detail of its agreement to produce automobiles for distribution by General Motors. But by robbing these foreign companies of flexibility in their model mix and their sourcing options and in the capacity to respond to changes in exchange rates, changes in the economy, S. 2300 would almost guarantee the failure of these kinds of American ventures.

The real accomplishment of the bill is that it prevents Ford, General Motors, and Chrysler from achieving economies of scale through out-sourcing around the world. That is the only benefit that is left without the transfer of production from Japan to the United States.

Question 3. You state in your testimony that 2,000 to 7,000 of your dealerships would close due to the loss of imported car sales that would result from this legislation. This in turn would cost roughly 66,000 American jobs. How quickly do you believe these jobs would be lost?

Answer. First, let me point out that the statement on page 11 of my testimony submitted to the Senate Commerce Committee on December 17, 1982 was ". . . at least 2,000 of our 7,000 dealerships" would close as a result of the proposed legislation.

We believe the job losses would result immediately on the effective date of the legislation as the companies involved cannot meet even the first year requirements of the bill. That would be 1984.

Question 4. As you note in your testimony, other countries have adopted local content requirements to which foreign automobile manufacturers have adhered. What has been the experience of the automobile manufacturers in these countries? Could the Japanese manufacturers accommodate to S. 2300?

Answer. Because domestic content requirements have proved a failure everywhere they have been tried, there is no incentive for foreign companies to accommodate the requirements of S. 2300 by building factories in the U.S. These requirements elsewhere have created a non-competitive industry, discouraging investment and costing consumers billions of dollars.

Argentina's 88 percent domestic content requirements have created an industry where all four Argentine auto producing companies are deeply in the red. Prices of cars in Argentina are 30 percent higher than the same models produced elsewhere for the world market.

Australia's domestic content law causes cars there to be priced $3,000 higher than comparable vehicles made elsewhere. Australian auto companies are largely unprofitable.

Nissan has been planning a factory in Great Britain to build 200,000 cars annually, employing 5,000 British workers and representing a capital investment of $500 million. Due to Common Market demands that the finished product contain from sixty to eighty percent domestic content, this project is now in limbo and may never be built.

Question 5. Would you anticipate retaliation by other countries if domestic content legislation were enacted? If so, in what form?

Answer. Direct retaliation could be anticipated from Japan, as the country most immediately affected by what would operate as import quotas. As noted in my testimony, it cannot be expected that the Japanese will establish new auto plants in the United States; rather, it is likely that the plants already established would be closed.

The form of retaliation for the import quotas of Japanese autos would be likely to take two forms: the first, through cutting back on U.S. access to the Japanese market, including for such exports as wood products, and extending to the recently-granted greater access for U.S. products ranging from confectionary to tobacco; the second, through continued refusal to allow the much sought-after access for other U.S. exports such as beef, citrus, and rice.

Indirectly, also, the domestic content legislation would serve as a justification for other countries to enact their own quotas against U.S. exports, irrespective of whether the country is itself affected by the U.S. auto import quotas. The United States, with billions of dollars in annual exports, can ill afford to set a precedent for protectionism that is likely to be thrown back in our faces.

The United States should not be lulled into believing that its exports are in such demand that no country would practice retaliation for fear of losing a needed good. In the past, when the U.S. government imposed an embargo on soybeans to conserve the short supply in the U.S., the Japanese switched purchases to Brazil, and the U.S. has never completely regained its market share.

STATEMENT OF ROBERT L. MCNEILL, EXECUTIVE VICE CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE

Mr. Chairman, I am pleased to be with you today on behalf of the Emergency Committee for American Trade, or ECAT. ECAT is an organization of the heads of 61 large U.S. companies with extensive business operations abroad. In 1981, our members had worldwide sales of nearly $700 billion, and five million employees. ECAT companies are among the largest U.S. employers and account for a significant share of U.S. exports. We have long supported expansionary U.S. trade and investment policies.

We in ECAT are opposed to enactment of S. 2300 for a number of reasons, many of which have been addressed to you by earlier witnesses. Let me, therefore, more or less simply list the major reasons for our opposition and then go on to more general comments. I might add here that the automobile manufacturers who are members of ECAT have expressed their views on domestic content legislation separately at an earlier hearing of the House Ways and Means Trade Subcommittee.

Enactment of S. 2300 would add to domestic inflationary forces at an upropitious time. Automobiles are already priced beyond the budgets of many prospective consumers. Content legislation would significantly add to these prices and further discourage automobile consumption both through shutting a significant volume of relatively low-priced foreign autos out from the U.S. market and through reducing a competitive spur to more efficient domestic auto production.

The overall consequences of enactment of domestic content legislation to the U.S. economy would likely be harmful. Studies by the Congressional Budget Office and the Congressional Research Service support this. While net new jobs might or might not in the long run be created in the auto sector, it is almost certain that there would be significant job losses in other sectors of the economy—in part because of foreign retaliation against U.S. export industries, and in part also because the rise of car prices will remove purchasing power that otherwise would be spent on other domestic products.

While the extent of such foreign retaliation against U.S. export sales is unknown, I think it certain that counter actions would follow adoption of S.2300. GATT rules authorize GATT members, including the United States, under certain conditions to retaliate against restrictions against their exports, particularly restrictions that are in violation of GATT rules. Enactment of S.2300 would be in such violation.

What equally concerns me and the members of ECAT is the indirect adverse consequences to U.S. overseas sales that would follow adoption by the United States of such a major departure from historic U.S. trade policy as domestic content requirements.

It is frequently forgotten that most U.S. companies invest abroad because an attractive market cannot be effectively penetrated solely by U.S. exports. However, these overseas operations are in most cases dependent on U.S. exports of components, subassemblies, and finished products. Indeed, it has been the experience of our member companies that the establishment of overseas sales, service and assembly facilities are essential elements of an effective U.S. export program.

For decades the United States has railed against the adoption of domestic content measures by others. Those countries who do utilize the domestic content device tend to be developing countries who are not contributing members of the GATT. Adoption of the device by the United States would demolish the force of U.S. objections against such foreign performance requirements as domestic content.

Should domestic content requirements be adopted, I think it certain that other countries would mirror this new practice of the United States—and practice we indeed do think it would be since other foreign and U.S. industries would seek and perhaps attain the same insulation from foreign competition. A world comprised of national markets in part reserved by government fiat for domestic producers would be a different and poorer world than the one we now live in. It would undoubtedly result in a reduction in the volume of world trade since "national" markets would tend to have higher costs and thus higher prices. A declining volume of world trade would cause unemployment levels to rise and recessionary forces to become more deeply embedded in national economies.

As mentioned earlier, the 61 members of ECAT rely heavily on their overseas sales and businesses. Worldwide sales and employment of our members in 1981 totaled about $700 billion and five million respectively. ECAT member companies have plants and other facilities in every state and in all but several congressional districts. It is not unusual for many of our members to have up to one-half of their revenues from abroad. These same companies have consistently had a favorable balance of payments as a result of their net exports and their remission of foreign profits.

We thus are representative of United States companies who are likely objects of foreign direct retaliation and who are likely to suffer from emulation of any possible U.S. domestic content requirements. A good portion of the 104,000 Americans whose jobs would likely be lost by enactment of S. 2300, according to a CBO estimate, will be employees of ECAT firms.

In this respect, I was particularly interested in testimony by the Honorable William E. Dannemeyer on September 23, 1982, in which, in commenting on the companion bill to S. 2300, H.R. 5133, he stated: "By what moral authority or legal right do we in Congress derive the power to take jobs away from some Americans and give them to others simply is response to the organized political preassure of a single group?"

While strongly opposing the domestic content legislation, we are in no way unsympathetic to the condition of the domestic automobile industry. Its plight is serious. We simply do not believe that domestic content is an appropriate answer. Imporved overall domestic economic conditions will provide the appropriate solution, particularly lower interest rates.

Another promising area of action that would substantially improve the marketshare of domestic automobiles over imported autos would be achieved if the United States would give high priority to the elimination of the current overvaluation of the U.S. dollar and in particular to alleviating distortions in the yen-dollar exchange rate. The apparent undervaluation of the yen—some experts estimate that the undervaluation is in the range of 25 percent-45 percent—distorts relative price positions between U.S. and Japanese goods, thereby artifically worsening the competitive abilities of U.S. producers, worsening the U.S. balance of trade, reducing employment in the United States, and fueling the fires of protectionism.

We urge this Committee and the Congress not to legislate S. 2300. Its passage would represent a fundamental switch in a historic trade policy that has well served the American people. Protecting the American market is not an adequate answer to our economic problems. Revitalization will be better achieved through becoming more competitive in the world while at the same time becoming less efficient in a governmentally protected domestic market. The American people want less government regulation. The kind offered in S. 2300 is of the worst kind.

We urge enforcement of U.S. rights under the GATT and implementing domestic statutes as the appropriate response to current trade problems. We also urge the Senate to pass S. 2094, the reciprocity bill fashioned in the Senate Finance Committee. That bill will enhance the U.S. ability to respond to unfair trade practices and will better enable the President to negotiate improvements in the GATT structure. I might add that one of the major unfair trade practices abroad is the proliferation among the less-developed countries of domestic content and other performance requirements.

Thank you for your attention.

STATEMENT OF THE NATIONAL BROILER COUNCIL

The National Broiler Council (NBC) is a trade association representing the producers and processors of over 75 percent of the broiler/fryer chicken produced in the United States. NBC is pleased for the opportunity to submit a statement on S. 2300, the Fair Practices in Automotive Products Act. NBC believes that S. 2300, which would impose domestic content requirements on automobiles, is not in the best interests of the national economy, and passage of the legislation could be particularly troublesome for the agricultural sector.

While supporters of S. 2300 contend that it is a "jobs" bill, even the Congressional Budget Office estimates that the legislation could displace more American workers than it would employ. We believe that requiring the use of domestically-produced auto parts will increase the cost of automobiles to consumers and those increases are being estimated at from several hundred dollars to several thousand dollars per vehicle. Most significantly, however, the legislation could provoke a retaliation of other nations against U.S. exports, and would invite a proliferation of other "performance requirements" worldwide. Imposing such content requirements is a prohibited act under the General Agreement on Tariffs and Trade, and passage would seem to openly seek the retaliation of our trading partners, to the detriment of all U.S. exports, and particularly to the detriment of agricultural commodity exports.

U.S. agricultural interests have long sought a reduction in international trade barriers and trade-distorting practices which hamper opportunities for trade expansion and a healthier world economy. We believe strongly that passage of S. 2300 could deal a major blow to our nearly $40 billion agricultural export market, to the U.S. economy and to the American consumer. We join with other members of the agricultural community in urging that this legislation not be enacted.

STATEMENT OF DR. PETER NELSEN, CHAIRMAN, INTERNATIONAL TRADE COUNCIL

Mr. Chairman and Members of the Committee. We appreciate this opportunity to submit testimony for the record on a subject of vital importance to the United States economy and to the world economy of which the United States is a part, and which is a key factor in the health of our domestic economy and of our geopolitical interests.

With all due respect to the Senators who sponsored the Bill, it should more descriptively be named the "Unfair Practices in Automotive Products Act" because it is unfair to all relevant parties, including the unions and companies it is designed to protect.

The effect of the measure would be to transfer income from the consumer (your constituents, one and all) to the autoworkers, at the expense of thousands of jobs in the peripheral service areas of the auto industry which employs more people than the ones on the assembly lines.

S. 2300, if passed, would violate the GATT rules which prohibit quantitative limits in specific amounts or proportions on volume of trade. If the United States violates this treaty which we have signed, and which we try to make other countries adhere to, then surely the other 87 countries who have signed the agreement, and who have greater economic problems than we have, will feel justified to protect their favorite industry and ignorning the rules of the treaty.

The resulting wave of protectionism would threaten to destroy our international trading system and prevent worldwide economic recovery. For example, France has just imposed new import rules that limit imports. The European community has proposed to limit fish imports through non-tariff barriers and numerous third world countries are imposing new limits on imports, justified by their need to meet their debt payments and protecting their infant industries.

The fact is that the third world countries will not be able to repay their dept if we do not allow them to export and our economy will continue to stagnate if we are barred from exporting to the third world.

It was the down turn in exports that triggered the recession and unless we take positive measures to open up free trade, we will relive the experience of the Thirties when the Smoot-Hawley Act set off a worldwide round of rising tariffs which resulted in a 60 percent decrease in world trade between 1929 and 1933.

U.S. industry depends on an expanding market to attract investment capital. Since the domestic market has reached saturation, the only remaining area of potential expansion is the overseas market and particularly the third world countries.

Over 20 percent of U.S. industrial production is now exported. Two out of every five acres of farmland are planted for export. One of every six U.S. workers in the manufacturing sector is working on export production. The share in our GNP resulting from exports have doubled in the last decade, but our share of total international trade has dropped drastically.

Last year our trade deficit was $30 billion, and it will double this coming year. The "strong" U.S. Dollar at a time of huge trade deficits indicates how poorly the rest of the world is doing in that they are sending their money here as a perceived safe harbor; thus, the normal economic balancing senario is not depressing the dollar and returning the trading system to equilibrium.

Negative measures hardly ever produce positive results and S. 2300 deserves to expire with the 97th Congress and the calendar year 1982.

The International Trade Council (ITC) has member companies whose employees and shareholders located in a majority of the states from coast to coast would be adversely effected by the direct and indirect results of S. 2300.

ITC is completing an extensive economic and geopolitical study of international trade. It will be completed by the end of January 1983, and if hearings could be scheduled by this Committee on the subject of an objective export trade policy, we would be happy to present a program which will increase employment and productivity here and overseas. It will let the consumer retain his choice in the market place and let companies plan their export production in a stable economic environment.

STATEMENT OF GEORGE C. NIELD, PRESIDENT, AUTOMOBILE IMPORTERS OF AMERICA, INC.

Mr. Chairman and members of the Committee, I am George C. Nield, President of the Automobile Importers of America, Inc. (AIA). AIA is the association of major automobile importers in the United States, and a list of its members is attached. Accompanying me are Ralph T. Millet, Chairman AIA and U.S. representative of Saab-Scania of Sweden, and our special counsel, John B. Rehm, of the firm of Busby, Rehm and Leonard.

AIA strongly opposes S. 2300. This bill is touted as a "jobs bill" ans as a "fair practices" bill. In fact, it is neither, since it would: (1) fail to induce foreign automobile manufacturers to produce in this country; (2) cause a net lose of jobs throughout the national economy; (3) increase the retail price of automobiles, and thus hurt the consumer; (4) impair the efforts of Detroit to become more competitive; and—perhaps most importantly—(5) repudiate the principle of fair competition in international trade for all products.

At the outset, it is important to understand the nature of the trade that the local-content bill is attacking. The automobiles being imported from Europe and Japan are fairly traded. That is, they are sold in this country in fair competition with domestic automobiles. They are not brought into this country by such unfair commercial practices as dumping, subsidization, infringement of U.S. patents, or other practices proscribed by our trade laws. The allegations of unfair trade practices that have been directed against imported automobiles have not been substantiated. Indeed, no formal complaint of an unfair trade practice involving imported automobiles has even been filed in the last seven years.

Not only arc imported automobiles fairly traded but they have been found not to be the major cause of the serious economic injury that the domestic automobile industry has suffered over the last five years. In 1980, the U.S. International Trade Commission decided that the major cause of such injury was the severe decline in consumption of all automobiles. Unfortunately, that decline has continued into 1982 and remains the basic reason for the plight of the domestic industry.

I should add that, in absolute terms, automobile imports have actually fallen. In 1981, they were less than in either 1979 or 1980. Moreover, their level in the first eleven months of 1982 is well under that in the same period of 1980 and 1981. It is true that imports have increased their relative share of the U.S. market. But that is due to the continuing fall in consumption, for which imports are not responsible.

in short, the local-content bill is directed against a product that is fairly traded and that has been found not to be the major cause of Detroit's difficulties. In such a case, it would be logical and rational to pursue other ways of assisting the domestic industry. the fact that the local-content bill targets imports reveals not only its illogic but, as I will explain in a few miniutes, its implicit attack upon the very principe of fair competition in international trade.

Let me first, however, take up and refute the five basic claims that the UAW makes in support of the bill. First, the UAW claims that the local-content bill will induce foreign automobile manufacturers to produce in this country and thereby increase employment in the industry. The bill will fail to do so, however, because it denies foreign companies a rational basis for economic investment. At present, the United States is a relatively open country with which to trade and in which to make plant investments. Both its laws and policies give domestic and foreign firms the necessary confidence that this relatively open climate will endure. For this reason, foreign automobile manufacturers have already made a $2 billion start in plant investment in this country, and further investment is contemplated.

Enactment of the bill would destroy this favorable climate. As a result, all manufacturers would be subject not only to the reality, all manufacturers would be subject not only to the reality of imposed restraints upon their operations, but to the threat of further governmental contol. Such a spectre would almost certainly dissuade foreign automobile manufacturers from making new plant investments in this country.

Indeed, the bill would also discourage the continued operation of the plants already established by the foreign manufacturers in this country. For example, Nissan is building a $660 million facility in Smyrna, Tennessee, that is designed to assemble light-duty trucks. The President of that facility has testified to the Congress that the bill would seriously jeopardize Nissan's investment in the United States.

Second, the UAW claims that the local-content bill will save or create more than 900,000 jobs in both the automobile and related industries. This claim must wrongly assume that the bill will attract new plant investment by foreign manufacturers and will not provoke retaliation or emulation by other countries. I have already given the reasons why the bill will discourage both the making of new, and even the continuation of existing, plant investment by foreign manufacturers.

What then will happen to employment if there is no new significant plant investment by the major foreign manufacturers? A study of the bill made by the Congressional Budget Office shows that, under such conditions, the domestic automobile and related industries would gain, at most, 70,000 jobs. On the other hand, the imported car and related industries, which account for about 160,000 jobs, would certainly lose a substantial number of those jobs. Moreover, it appears certain that any net gain in the automotive sector would be more than wiped out by the loss of jobs in U.S. export industries. Enactment of the local-content bill could well provoke either retaliation or emulation by other countries that would reduce the volume of U.S. exports to such countries. The Department of Commerce has estimated that $15 billion in exports of high technology and farm products would be vulnerable to such actions. As the Congressional Budget Office noted in its analysis of the bill, the national economy might well suffer an overall net loss of about 150,000 jobs as a result of this bill. This would seem to be conservative based upon the estimates of other analysts. Clearly this cannot be what supporters of this legislation have in mind when they refer to this as a "jobs bill".

Third, the UAW claims that the local-content bill will not cause any increase in the retail price of automobiles. Under the quota provisions of the bill, the Congressional Budget Office estimates that imports would fall by about 1.1 million units.

We have already seen the retail price increase caused by Japan's relatively modest export restraints. A drop of 1.1 million in imports would not only reduce the selection of automobiles available to the consumer, but, in addition, it would bring about a substantial retail price increase. The Congressional Budget Office has estimated an increase of about $500 per automobile, but this seems conservative. In 1980, the staff of the Federal Trade Commission estimated a price increase of as much as $838, assuming only a 700,000 vehicle drop in imports. Such a price increase would, in turn, further discourage the purchase of new automobiles by consumers already reeling from "sticker shock".

Fourth, the UAW claims that the local-content bill would maintain the competitiveness of the domestic industry. In fact, the local-content bill would go far to defeat the "world-car" strategy upon which Detroit is properly basing its hopes for future competitiveness and profitability. This strategy necessarily assumes that a U.S. automobile manufacturer will be able to obtain parts from the most readily available and economical sources throughout the world. By this strategy, General Motors, Ford, Chrysler, and Volkswagen were able to introduce new and fuel-efficient models on a timely basis to meet consumer demand. In order to satisfy the local-content requirements of the bill, however, a manufacturer will have to buy almost exclusively U.S. parts. By doing so, it will have rendered its automobile less competitive in U.S. and world markets.

Fifth, the UAW claims that the foreign automobile manufacturers have some kind of a moral obligation to produce automobiles in this country. The theory seems to be that, if you participate significantly in a foreign market by exporting to that market, you should also manufacture in that market. Such a theory is economic nonsense, since it would destroy the principle of comparative advantage. Consider the consequences of requiring our strongest export industries, like aircraft and agriculture, to produce in those countries in which they market. In 1981, for example, U.S. agricultural exports to Japan and the EC totaled $15.7 billion. The very economic advantages that render such export industries so efficient would be vitiated, to the detriment of both the exporting and importing countries.

For all of the serious objections that I have raised about the local-content bill, they are distinctly secondary to its fundamental deficiency. This bill is, in its basic terms, an outright repudiation of the principle of fair competition in international trade for all products.

Consider, for a moment, the destructive consequences of such an idea. In all but two years—1977 and 1978—since the end of World War II, our trade in goods and services has been in surplus. In 1980 and 1981, that surplus was at the second highest level since World War II—between $23 and $24 billion. In other words, through fair competition, we have sold more goods and services than we have bought. Our ability to do so would vanish if other countries adopted the pernicious philosophy of the local-content bill. The principle of fair competition in international trade would be abandoned, and countries would resort to expedient devices for short-term commercial benefits.

U.S. export industries would be hurt by the bill in least four ways. First, foreign countries now buying U.S. exports would have fewer dollars and would therefore buy less from us. Second, customers abroad might well react by shifting their purchases to suppliers other than those in the United States. Third, foreign countries are likely to emulate the United States and enact their own local-content legislation that would discriminate against U.S. exports. Fourth, foreign countries could obtain authorization from the members of the General Agreement on Tariffs and Trade (GATT) to retaliate by imposing discriminatory restrictions on imports from the United States.

The local-content bill would clearly violate the GATT. Article III, Paragraph 5, of the GATT provides:

> No contracting party shall establish or maintain any internal quantitative regulation relating to the mixture, processing or use of products in specified amounts or proportions which requires, directly or indirectly, that any specified amount or proportion of any product which is the subject of the regulation must be supplied from domestic sources.

This unequivocal prohibition is one of several provisions of the GATT that are designed to assure the "national treatment" of imported goods. That is, the internal taxes and laws and regulations affecting the sale, distribution, of and use of goods should not be imposed in a more burdensome way upon imported, as opposed to domestic, goods.

This principle of national treatment is set forth in Paragraph 1 of Article III of the GATT, as follows:

The contracting parties recognize that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring the mixture, processing or use of products in specified amounts or proportions, should not be applied to imported or domestic products so as to afford protection to domestic production.

Insofar as the local-content bill would impose quantitative limitations on imported automobiles that did not satisfy the local-content requirements, the bill would also violate Paragraph 1 of Article XI of the GATT, which reads as follows:

"No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licenses or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party."

It should be emphasized that, by violating the national treatment an anti-quota provisions of the GATT, the local-content bill would be attacking two of the most vital principles that support the international trading system. The principle of national treatment assures that imported products will not be unfairly discriminated against in their sale and distribution. The prohibition against quotas requires countries to use tariffs, instead. Tariffs are, in principle, less restrictive and can be reduced through multilateral trade negotiations.

The local-content bill would also violate U.S. treaties of friendship, commerce, and navigation (FCN) with such countries as Italy, Japan, and West Germany. The FCN treaty with Japan, which entered into force on October 30, 1953, is a good example. The principle of national treatment is embodied in Paragraph 1 of Article XVI of that treaty, which reads as follows:

"Products of either Party shall be accorded, within the territories of the other Party, national treatment and most-favored-nation treatment in all matters affecting internal taxation, sale, distribution, storage and use."

Just as much as Article III of the GATT, the local-content bill would violate this provision of the FCN treaty with Japan and comparable provisions in other FCN treaties. Any local-content requirement necessarily discriminates in favor of domestic manufacturers and thereby repudiates the principle of national treatment. That principle demands that domestic and imported products be treated even-handedly within the commerce of the importing country.

In short, the local-content bill would violate both the GATT, which is the foundation of the international trading system, and several FCN treaties, which are the legal basis for commercial relations with such countries as Italy, Japan, and West Germany. Enactment of the local-content bill would thereby declare to the world in no unceratain terms that the United States is fully prepared to repudiate its international obligations and to disregard the rule of law in international commerce.

The fact that the local-content bill would so badly violate the GATT—and particularly Articles III and XI—simply confirms its fundamental invalidity. For the United States to enact the local-content bill would go far to destroying the effectiveness of the GATT—and only two years after the successful efforts of the Tokyo Round to strengthen the GATT. It would send a signal to our trading partners that the United States no longer believes in the rules of fair international competition. This would be particularly ominous at a time when the world economy is in such distress and the protectionist pressures besetting other countries are so strong.

In summary, then the local-content bill is not just about imported automobiles. It concerns the very foundation of the international trading system that has served the United States and other countries so well for about 35 years. Are we really prepared to jettison the system with this local-content bill? Are we really prepared to do so when the bill would probably work to the net disadvantage of the U.S. automobile industry itself? AIA members presume the answers are "No" and therefore urge this Committee to reject the local-content bill.

Thank you, Mr. Chairman. That concludes my prepared statement. We will be happy to answer any of your questions.

Attachment.

Members of Automobile Importers of America, Inc.: Alfa Romeo; BMW; DeLorean; Fiat; Honda; Isuzu; Jaguar Rover Triumph; Lotus; Mazda; Mitsubishi; Nissan; Puegeot; Rolls-Royce; Saab-Scania; Subaru; Toyota; and Volvo.

Automobile Importers of America, Inc.,
Arlington, Va., January 7, 1983.

Hon. Bob Packwood,
Chairman, Senate Commerce Committee,
Washington, D.C.

Dear Mr. Chairman: During your hearings on S. 2300, the so-called "Fair Practices in Automobile Products Act," several proponents of the legislation made allegations purporting to link the high cost of U.S. automobiles in Japan to discriminatory trade practices in Japan. We would like to set the record straight on this, and we therefore ask that this letter be included in the hearing records.

While it is true that U.S. cars in Japan all sell for more than in the United States, the cause of this is neither trade barriers nor product standards and testing procedures. Believe it or not, Japan has fewer automobiles trade barriers than any major automobile-producing country in the world and Japanese product standards and testing procedures are comparable to those in the United States and other developed countries. In fact, unlike other countries, Japan has permitted 36 months more time for imported vehicles to meet its emission control and fuel economy requirements than its own vehicles.

Japan has zero duties on automobiles, trucks, and parts while the U.S. duty is 2.8 percent on automobiles, and 25 percent on trucks, and averages about 3.5 percent on parts. Japan does impose a sales tax of 17.5 percent and 22.5 percent on the sale of small and large vehicles, respectively. This is in no way a trade barrier since it applies to domestic and imported vehicles alike, but an attempt to conserve fuel and raise revenues. Such differentials are common throughout the world—including the District of Columbia.

However, the principal reason for the higher cost of the U.S. cars in Japan is Detroit's long-standing strategy—to invest in production facilities in each foreign market rather than export to those markets from U.S production facilities. In recent years, Ford has purchased 25 percent of Toyo Kogyo; GM 34 percent of Isuzu; and Chrysler 15 percent of Mitsubishi. The result is that Detroit makes little, if any, effort to market its cars in Japan. Therefore, Detroit vehicles are sold in Japan on an extremely low-volume basis. The per-vehicle markup for homologation, dealer overhead, and profit is consequently much greater than in the high volume U.S. marketplace. An excellent view of this and other factors that affect the price of U.S. cars sold in Japan can be obtained from the enclosed GAO tabulation which was included in the record of the 28 September 1982 House Trade Subcommittee Hearing on local content legislation.

The Subcommittee on Trade of the House Ways and Means Committee put it this way in its June 6, 1980 report, at page 36:

> [T]he United States has never produced the type of auto the average Japanese car buyer wants. . . . All Japanese cars are equipped with right-hand drive, while U.S. cars are shipped to Japan with standard left-hand drive. If the U.S. manufacturers were seriously interested in selling cars in Japan, they would not have to "homologize" their cars in Japan. Instead, they would produce cars strictly for the Japanese market, just as the Japanese have been doing for their imports to the United States for the last 20 years.

We do not criticize this corporate strategy. We applaud it. *Business Week* in its January 25, 1982 issue says, at page 105:

> Ford Motor Co.'s lucrative tie-up with the Toyo Kogyo Co. is a striking example of the American company's success—outside North America. In the United States and Canada, Ford's travails have generated losses of more than $3 billion over the past two years. But the company has continued to survive because its European, Asian, and Latin American businesses have produced about $700 million in profits over the same period.
>
> While Ford's U.S. auto sales dropped 8 percent in 1981, its foreign sales jumped 6 percent. Today the company's foreign operations account for 40 percent of its total revenues and nearly 60 percent of its employees. "Our only problems", says a confident Donald E. Peterson, Ford's president, "is North America."

Finally, in his testimony before the Subcommittee on Trade of the House Ways and Means Committee on September 24, 1982, concerning H.R. 5133, Mr. Caldwell, Chairman of the Board, Ford Motor Company, stated, at page 310:

> Now, let me say one other thing. Because of the nature of our business, we do not like not having a position in a major market like Japan. We will be announcing on the 4th of October a major effort to establish a much broader distribution network in Japan to sell under the Ford label. The franchises will be Ford franchises, and we will sell vehicles with the Ford oval. Some of them will be made in Japan, and a few of them will be imported from the United States or from our European subsidiaries.

We will start out with about 60 dealers, and by 1985 we hope to have 300 or 400 dealers. We intend to have the Ford oval prominently in operation in Japan. This is not quite as good as being able to do it in a more traditional way, but we have no intention of not competing into the Japanese market. So we have to do it on terms that are sensible for that market.

In short, Mr. Chairman, contrary to popular belief, Japan has lower tariffs on automobiles than the United States, and homologation requirements are certainly no more stringent. The reason for the high cost of U.S. cars is not due to barriers but is due primarily to past investment strategies of the U.S. companies. These strategies may be changing.

We certainly appreciate your holding hearings on S. 2300. These hearings provide a forum that permit facts to be placed in the public record.

Respectfully submitted,

GEORGE C. NIELD,
President.

Enclosure.

AUTOMOBILE IMPORTERS OF AMERICA, INC.—QUESTIONS OF THE COMMITTEE AND THE ANSWERS THERETO

Question 1. How would you characterize the respective domestic and foreign impacts of S. 2300, H.R. 5133 as reported, and H.R. 5133 as passed by the House? Do you oppose all three versions of the dometic content legislation?

Answer. The domestic and foreign impacts of S. 2300 and H.R. 5133 as reported would be essentially the same, although somewhat different in degree. Domestically, they would discourage new plant investments in this country by foreign automobile manufacturers, they would cause a significant increase in the retail price of automobiles, and they would render the domestic automobile manufacturers less competitive by undermining their "world car" strategy. Internationally, they would violate our international obligations, including paragraph 5 of Article III of the General Agreement on Tariffs and Trade (GATT), they would repudiate the principle of fair competition in international trade, and they would provoke actions by other countries that would harm U.S. export industries.

The domestic and foreign impacts of H.R. 5133 as passed by the House would be negligible. Section 7, known as the Fenwick Amendment, effectively nullifies those provisions of the bill that provide for the establishment and operation of the domestic content requirements, that is, sections 4, 5, and 6.

AIA opposes S. 2300 and H.R. 5133 as reported because of the serious harm they would inflict upon the domestic economy and the international trading system. AIA opposes H.R. 5133 as passed by the House because of its belief that the Congress should not enact self-defeating and therefore ineffective legislation.

Question 2. You note in your testimony that domestic content legislation would undermine the "world car" strategy now being used by American automobile manufacturers. In what way do yo believe that this would make American-made automobile less competitive?

Answer. The American automobile manufacturers are confronted by intense competition from foreign-made automobiles, both in the U.S. and foreign markets. They realize that, in order to produce automobiles most efficiently, they must be able to procure parts from sources effectively utilizing economies of scale and then assemble such parts in their major markets. This is called theor "world car" strategy.

The domestic content legislation would seriously frustrate this strategy in two ways. First, with respect to the U.S. market, it would force the American automobile manufacturers to assemble automobiles from almost exclusively U.S. parts. As a result, they would have to try to sell relatively high-priced automobiles in competition with those lower-priced foreign automobiles that were subject to lesser or no domestic content requirements. Second, insofar as the enactment of domestic content legislation by the United States would encourage other major industrialized countries to do the same, the foreign subsidiaries of American automobile manufacturers would similarly be put at a competitive disadvantage either in their own home markets or in third-country markets.

It seems clear that, if the American autombile industry is to survive, it must have ready access to the most efficiently produced parts. Without such access, it will price itself out of the U.S. and other major markets.

Question 3. Please elaborate on your statement that the domestic content legislation would destroy the principal of comparative advantage, thus harming the exporting and importing countries. In what specific ways do you believe the results of S. 2300 would be to the detriment of the U.S.?

Answer. The principal of comparative advantage underlies the international trading system and is responsible for the great success that the United States has enjoyed in its trade with the other countries. That principle recognizes that the economy of the world and of individual countries is best served if countries are allowed to make and sell those products that they can best make because of a combination of natural and human resources. On this basis, consumers throughout the world can obtain products of the best quality at the lowest price.

The United States, in particular, has profited enormously from the principle of comparative advantage as it is embodied and safeguarded—albeit imperfectly—in the GATT. The major exporting industries of this country, including the industrial and agricultural and the providers of services as well as goods, have been able to use this comparative advantage to their success. As a result, in all but two years—1977 and 1978—since the end of World War II, our trade in goods and services has been in surplus.

The domestic content principle, on the other hand, would take away from producers of internationally-traded goods their comparative advantage. It would force them to use components selected by governmental fiat rather than on the basis of engineering or economic judgment. In other words, the domestic content principle would penalize the efficient producer and reward the inefficient producer. If such a principle were adopted throughout the world, international trade would decline seriously, together with that increasingly significant part of the U.S. economy that is devoted to exports.

It is primarily in this way that S. 2300 would be to the detriment of the United States. In its testimony and response to Question 1 above, AIA has identified the specific kinds of harm that S. 2300 would inflict upon the domestic economy. But the overriding danger is that the pernicious philosophy underlying S. 2300 would be adopted and applied to other industries of the United States. If this should occur, other major trading countries would probably be forced to emulated the United States. The result would be a stagnation and decline of world trade that would seriously injure all countries, and particularly the United States.

Question 4. Automobile Importers of America maintains that automobiles being imported from Japan are fairly traded. However, three formal Japanese restrictions on imports have been alleged: discriminatory excise tax, car-by-car inspection concerning emission-control and safety requirements, and nonacceptance of U.S. notarized statements of date of manufacture. Please comment of these alleged restrictions. Does Japan have any import restrictions which apply solely to American automobiles?

Answer. These allegations do not withstand scrutiny. First, the excise tax is not discriminatory, since it applies to all cars sold in Japan, whether Japanese or foreign. The excise tax is a two-tier tax that is based on vehicle size as an energy-conservation measure. Where applicable, the higher rate is paid by Japanese as well as foreign cars. Second, instead of only car-by-car inspection, a foreign manufacturer, like a Japanese manufacturer, is given the option of having a type of model approved. Third, the Japanese Ministry of Transport has recently agreed to accept U.S. notarized statements of date of manufacture from notaries public approved by the ministry. A list of such approved notaries public has already been issued.

Moreover, Japan maintains no import restrictions which apply only to American automobiles. In fact, imports into Japan of American automobiles enjoy duty-free treatment and all the benefits extended to other foreign automobilies.

Question 5. You state in your testimony that S. 2300 would violate the General Agreement on Tariffs and Trade (GATT). Are there other international obligations the bill would contravene?

Answer. As noted in AIA's testimony, S. 2300 would also contravene U.S. treaties of friendship, commerce, and navigation (FCN). These treaties do not contain a provision like paragraph 5 of Article III of the GATT that expressly outlaws domestic content requirements. But they do embody the principle of national treatment, which requires that domestic and imported products by treated in like manner within the commerce of the importing country. Since any domestic content requirement necessarily discriminates in favor of domestic manufacturers, it is inimical to the principle of national treatment. This principle is found, for example, in paragraph 1 of Article XVI of the FCN treaties with Italy, Japan, and the Federal Republic of Germany.

Question 6. It has been alleged that Japan maintains a closed market to imports of automobiles. What is your view on this allegation?

Answer. The allegation is not supported by the facts. Japan has a zero duty on foreign cars, trucks, and parts, and its safety and emission-control standards are comparable to ours. Indeed, on occasion, Japan has given foreign manufacturers a longer time than their own manufacturers to meet fuel-economy and emission-control standards. The fact is that Detroit has never tried seriously to sell cars to Japan. Its strategy, both in Europe and Japan, has been rather to invest in production facilities in those countries.

Question 7. To what extent do you believe the potential destructive implications of S. 2300 could go beyond automobiles?

Answer. There is a good chance that the potential destructive implications of S. 2300 could go beyond automobies, given two factors, in particular. The first is the strong influence that the United States exercises in the field of international trade. It does so both by virtue of its economic size and strength and also by virtue of its position of leadership in the free world. Other countries, both developed and developing, look to the United States both as a matter of choice and often economic necessity. U.S. adoption of a domestic content requirement with respect to one of its basic and largest industries would be bound to affect the thinking of other countries. Second, this would be particularly true when—as at the present time—all countries are contending with serious economic difficulties and are beset by pressures to take protectionist measures. For the United States to embrace the principle of domestic content—like a number of developing countries—might well render it irresistible for other industrialized countries to do the same.

In short, enactment by the United States of any form of domestic content legislation could have an incendiary effect. Other countries struggling to resist protectionist pressures might well yield to such pressures if the United States should so significantly reverse its traditional policy of promoting liberal trade.

Question 8. Would you anticipate retaliation by other countries if S. 2300 were enacted? If so, in what form?

Answer. Particularly in light of the influential nature of U.S. trade actions and the strength of protectionism throughout the world, retaliation would be very likely, and it would take several forms. For example, an affected country could simply decide to buy fewer products from the United States. It might shift its sources of supply from the United States to other countries. It could also emulate the United States by establishing its own domestic content requirements in one or more industries. Then again, it could—with or without GATT authorization—impose new barriers to the importation of U.S. goods.

Even in the absence of retaliation, severely protectionist measures like the domestic content legislation would cause harm to U.S. exports and international trade, in general. By virtue of such measures, the United States would purchase fewer goods from other countries. In turn, such countries would have fewer dollars with which to buy American goods, including such major exports as agricultural products.

In other words, the inevitable consequence of domestic content legislation and similar measures would be a reduction of world trade and thus a further intensification of the severe economic difficulties prevalent throughout the world. Accordingly, the need to defeat any domestic content legislation becomes paramount.

Question 9. Other countries have adopted local content requirements for cars. What have been the experiences of foreign manufacturers in these countries?

Answer. The countries that have adopted local content requirements do not include any of the major industrialized countries like Sweden, West Germany, France, the United Kingdom, Italy, and Japan, which have efficient and competitive automobile industries. To the contrary, such requirements were adopted in order to protect inefficient industries that needed such artificial protection. It is AIA's understanding that the foreign automobile manufacturers have been able to compete with the domestic manufacturers because of the latters' inefficiency. In the United States, Detroit is sufficiently competitive that the Japanese manufacturers could not comply with the local content requirements and still hold their own in the U.S. market.

STATEMENT OF NISSAN MOTOR MANUFACTURING CORP. U.S.A.

Nissan Motor Manufacturing Corporation U.S.A. (NMMC) is a company whose principal offices are located in Smyrna, Tennessee, near Nashville. NMMC is a subsidiary of Nissan Motor Co., Ltd., of Japan, (Nisan) and constitutes Nissan's entry into the automotive manufacturing business in the United States. The purpose of this statement is to describe the likely impact that S. 2300 would have upon Nissan and its U.S. manufacturing subsidiary, and to comment upon the effect that the legislation would have upon foreign automotive investment in the United States and the automotive industry generally.

S. 2300 is not the answer to the United States automotive industry's problems. NMMC strongly disagrees with those who argue that the bill would force new foreign automotive investment in the United States, thereby creating jobs for Americans. It would certainly not result in additional investment in the United States by Nissan. In fact, it would seriously jeopardize Nissan's project in Tennessee.

Nissan Motor Manufacturing Corporation U.S.A. is building a facility in Tennessee to produce light duty trucks. Production start-up is scheduled for August 1983. These U.S. trucks will replace those which Nissan now builds in Japan and exports to the United States. Last year, trucks accounted for about 20 percent of the company's total U.S. sales.

NMMC intends to produce 156,000 light duty trucks annually in its initial operation. The tooling will be in place to produce up to 180,000 units if demand warrants. The company will also be able to add tooling within its existing facility to produce up to 240,000 vehicles.

Nissan's investment will amount to $660 million before its first truck is produced. This is the largest single investment made by a Japanese company in the United States, and it is Nissan's largest investment outside of Japan. The company's total cash requirements will actually approach $1 billion before Nissan earns the first dollar of profit from the sale of its American-made vehicles.

The Tennessee facility will have 3.2 million square feet, or about 69 acres, under roof. The front of the building will be more than two-thirds of a mile long. It will be the most technologically advanced operation in the Nissan system—even more advanced than Nissan's plants in Japan. 220 robots will be utilized in the body, stamping, assembly and paint operations of the facility.

Thousands of construction workers, earning a $100 million payroll, are building the facility. NMMC currently employs approximately 900 people, who have been selected from some 80,00 applicants. 425 of these, including 128 hourly technicians, are receiving extensive training at Nissan plants in Japan and at NMMC's 30,000 square foot training center in Smyrna. Technicians and their supervisors are spending up to five months in Japan training on the assembly line.

In total, NMMC expects to spend more than $63 million for training prior to start-up.

When the company reaches the planned production of 156,000 units, the work force will total 2,650. The annual payroll will exceed $90 million. The indirect employment and economic "ripple-effects" of NMMC's activities will, of course, be very substantial. In fact, at least one U.S. supplier, Hoover Universal, Inc., is already building a plant in the vicinity of NMMC in order to supply finished seats for the trucks NMMC will build. Hoover is also supporting a construction payroll and is creating new jobs in Tennessee—clearly a result of Nissan's investment.

As a growth-oriented company looking to the future in a very competitive business, Nissan's goal is to supply consumers with products of the highest quality. It has successfully pursued that objective in the United States up until this time by building vehicles in Japan and exporting them to this country. In 1972, Nissan exported 261,000 units to the United States, and that number had grown to 584,000 units by 1981.

Why did Nissan decide to make such an enormous investment in this country? Several years ago, Nissan's management team made a fundamental decision to shift from an export-only strategy to become a truly transnational company. Since 1980, the company has entered into a joint venture with Alfa Romeo in Italy and a tie-up arrangement with Volkswagen in Japan. In addition, Nissan has purchased a major interest in Spain's Motor Iberica, and is conducting a feasibility study related to a potential investment in the United Kingdom. Finally, it is building a major manufacturing facility in the United States.

In determining whether and how to invest in the United States, Nissan took into account future market conditions, the strengths of its product lines, anticipated demand for its products, the positioning of its competitors, and the availability of satisfactory suppliers. After intense study of these and other factors over the course of several years, the company concluded that building trucks in the United States was an acceptable business risk. That decision could not have been made if S. 2300 had been the law at that time.

In April 1980 Nissan announced its intention to build a U.S. plant and to begin production as soon as possible. Ground breaking occurred in February 1981 and soon thereafter NMMC began to identify available sources of supply for components. To assure success in an intensely competitive market, NMMC is selecting suppliers on the basis of their ability to meet Nissan's standards for design, quality, price, reliability of supply and timeliness of delivery.

This process can easily require two years of effort, since it involves source investigation, unique tooling requirements, and sampling of parts from both prototype and production tooling for compliance to Nissan specifications and Federal Motor Vehicle Safety Standards. Testing is conducted by suppliers in conjunction with NMMC, which performs rigid vehicle and durability trials. Where NMMC does not have complete testing capabilities, either components or complete vehicles must be sent to Nissan in Japan for testing. If the product fails any of these tests, the process must start again.

The process of selecting suppliers has made it clear that NMMC can expect to achieve approximately a 38 percent domestic content ratio in first vehicles it will produce, a ratio computed by industry methods and not on the basis of the definition in S. 2300. Over the long term, NMMC expects to increase this ratio. In fact, the company has a mandate from Nissan to utilize maximum United States content. However, NMMC's production volume of 156,000 vehicles is too small to cost-justify the manufacture of major components such as engines and transmissions in the United Sates. If NMMC tried to build major components, its costs and prices would be significantly out of line with the competition. Therefore, NMMC must continue to import major parts in order to succeed as a manufacturing company in the United States.

Under S. 2300, NMMC would be required to meet a domestic content ratio of 90 percent. That is the level of domestic content required of companies selling more than 500,000 units in the United States in 1985 and beyond. Parent and subsidiary corporations are treated as one entity for purposes of making this calculation.

For reasons that are outlined above, it is not feasible for NMMC to achieve a 90 percent domestic content level in the trucks that it will build in Tennessee.[1] Moreover, even if NMMC could reach a domestic content level of 100 percent, it would not be possible for the company as a whole to meet the bill's requirements without moving virtually all of its production of cars as well as trucks for the U.S. market to the United States. In addition, it is not reasonable to expect Nissan to increase its U.S. investment—which is the largest it has made outside of Japan—long before its initial venture in this country proves successful.

Since Nissan cannot meet the domestic content ratio mandated by S. 2300, it would be subject to the bill's import quota. That quota, which would reduce its imports by 25 percent in the year following each year in which the company failed to meet the required domestic content ratio, would apply both to the production of trucks by NMMC in Tennessee and to the import of vehicles produced by Nissan in Japan. It would severly limit the number of vehicles Nissan could sell in the United States, and this would adversely affect Nissan's very significant marketing and sales subsidiary in the U.S. as well as its dealer network. These operations today provide jobs for 34,000 Americans.

Passage of S. 2300 would unquestionably severely jeopardize the viability of NMMC in Tennessee. It will be several years before NMMC breaks even, and even then its projected per unit profits will be modest. Therefore, Nissan could minimize the losses it would suffer as a result of the legislation by exporting lower cost vehicles from Japan up to the limit imposed by the bill, rather than by manufacturing vehicles at its $660 million facility in the United States.

In addition to the disasterous consequences this legislation would have on Nissan and its manufacturing operations in the United States, this legislation would not solve the U.S. automotive industry's fundamental problems. It would likely create even more difficult ones over the long term.

First, production costs of the domestic manufacturers would increase because S. 2300 would limit their flexibility to source least-cost components from foreign suppliers. As a result, U.S. automotive prices would increase.

Second, sales of vehicles by companies like Nissan would be restricted dramatically because of the bill's quota, decreasing competition and reducing the choice of vehicles available to U.S. consumers.

Third and finally, domestic companies would probably not benefit from the vacuum created by the limited supply of products available from large Japanese manufacturers. Instead, smaller foreign automotive companies which export volumes requiring little or no domestic content would find their competitive positions strengthened, and their sales could expand to the limits imposed by the bill.

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[1] Nor would it be feasible for Nissan to meet the content requirements of H.R. 5133, the House counterpart of S. 2300. Under the formula of H.R. 5133, Nissan would be required to meet approximately a 70 percent content requirement. That level as well is not economically feasible for the reasons explained in this statement.

STATEMENT OF HOWARD D. SAMUEL, PRESIDENT, INDUSTRIAL UNION DEPARTMENT, AFL-CIO AND CHAIRMAN, COALITION OF AUTOMOTIVE COMPONENT AND SUPPLY WORKERS

I am here today testifying in support of S. 2300, the Fair Practices in Automotive Products Act, as president of the Industrial Union Depatment, a voluntary association within the AFL-CIO composed of 59 affiliated unions representing approximately six million workers, and also on behalf of the Coalition of Auto Component and Supply Workers, a coalition of 31 national and international labor unions affiliated with the Industrial Union Department, whose members produce parts, Components, and supplies for automobiles. The Coalition represents workers—to a certain extent within the domestic auto manufacturing firms but largely outside of them—who produce steel, rubber, fabrics, wiring, electrical equipment, glass, aluminum, and other materials and components that go into finished automobiles and trucks.

No one can dispute the fact that the American auto industry is in bad shape today. Joblessness is at near record rates—not only for auto assembly workers but also for more than twice as many workers in supplying industries and for many more auto dealers, shippers, and service centers. The reasons, of course, are complex. Chief among them are devastatingly high interest rates and the huge influx of foreign cars—particularly from Japan—during the last decade. The auto industry and related supplier represent the largest manufacturing industry in America. Action to ameliorate the situation must be taken immediately to stop the exodus of American jobs to other countries and to prevent further erosion of the U.S. industrial base.

DIMENSION OF THE PROBLEM

One of every five American jobs is linked to the auto industry. For every worker involved in auto assembly, there are 2.3 workers in component and supplying industries. The importance of the auto industry's position in the total economy is demonstrated by the industry's consumption of materials. In 1979, the auto industry used 21 percent of the steel consumed in the U.S., over 50 percent of the malleable iron, 34 percent of the zinc, 12 percent of the primary aluminum, 13 percent of the copper, and 60 percent of the synthetic rubber.

Employment in auto manfacturing is down 37 percent from 1978—representing some 280,00 workers who have lost their jobs. In mid-December 1982, 262,500 hourly workers are on indefinite layoff from the major U.S. domestic auto companies. Job losses in supplying industries as well are larger yet, bringing the auto-related industrial job loss figure to well over three-quarters of a million people. Motor vehicle parts and accessory workers account for the single largest portion of employment in the primary auto parts producing sector. Labor Department Statistics show that between December 1978 and August 1982, the number of production workers employed in this segment declined from 374,700 to 67,900—a drop of 125,400 jobs or more than 37 percent. Auto metal stampings, which account for nearly all sheet steel components in vehicles such as body parts, wheel covers, and trim, had an employment decline of 39,100 production jobs, from 107,000 to 67,900—over 36 percent—during the same period. And the number of production workers supplying tires fell from 92,800 to 70,500 during that time span. Other industries that produce auto equipment as well as other goods also have been hit by increasing rates of unemployment as a result of the slump in the auto industry. Between November 1978 and August 1982, for example, employment of production workers in iron and steel foundries declined from 201,000 to 117,900—representing 83,100 workers and nearly one-half of the workforce in that industry. Employment in malleable iron foundries alone dropped 18,500 to 8,800—a loss of 9,700 production jobs, or a decline of over 52 percent—during the same time period.

The astronomical unemployment rate among auto industry workers represents not only an economic drain for the country and a budgetary burden resulting from lost revenues and additional spending for unemployment compensation, food stamps, and social services, but it also reflects a psychological drain. The statistics do not reveal the devastating impact that the stress of unemployment has on workers, their families, and their communities.

While domestic sales and unemployment levels are declining precipitously, sales of imported cars are continually setting new records. The import share of new car sales has jumped from 17.9 percent in 1978 to 27.8 percent so far in 1982. Japanese imports are mainly responsible for the huge increases. Japanese-made cars now account for 22.5 percent of U.S. automobile sales, up from 12.1 percent in 1978. In addition, American companies are obtaining an increasing percentage of parts from sources outside the U.S. As increasing numbers of imported cars travel U.S. roads, the replacement parts market for them has expanded greatly. Some foreign car manufacturers, however, have virtually shut out U.S. parts suppliers in favor of foreign suppliers. All these factors, in combination with our trade policies, have contributed to the rising number of unemployed workers in this country.

INTERNATIONAL TRADE POLICIES

Unlike the situation in other markets, foreign auto producers have almost unfettered access to the U.S. market. In contrast to America's 2.9 percent ad valorem tariff on foreign car imports (which is scheduled to drop to 2.5 percent in 1987), France, Great Britain, and Italy all impose 11 percent duties on auto imports, along with absolute quotas. For example, Italy limits Japanese imports to 2,200 units per year, and France limits them to only 2.5 percent of its domestic market, while Great Britain permits Japanese imports of only 10 percent of total sales within Britain. In Germany, the only major industrial market nearly as open as the United States, the government also levies the 11 percent European Community tariff and has recently acted to limit the Japanese to 11 percent of German auto sales.

New beggar-thy-neighbor auto industry policies are rapidly proliferating among the advanced developing countries to the further detriment of the American auto and supplying industries. Most pernicious among these new policies are export requirements imposed on auto producers in Mexico, Brazil, and other countries as a condition for the auto companies to operate in those markets. Under the requirements of the Mexican Auto Decree of 1977, each American and other auto company operating in Mexico must export more automotive products from Mexico than they import into Mexico. The government of Mexico has estimated that the decree will result in raising exports of Mexican auto parts from $650 million in 1979 to over $5 *billion* by 1985—with some 60 percent of the increase coming into the United States. The result will be the loss of some 86,000 to 115,000 U.S. jobs or job opportunities.

The impact on supplier industries from the Auto Decree is already manifest for producers of metal castings, wiring harnesses, trim, glass, and a host of other auto components. The most dramatic impact can be seen in new investments for fuel efficient four and six cylinder engines—presumably the mainstay for a modernized American auto industry. Under the requirements of the Mexican Auto Decree, however, North American auto producers have built five of these new, modern, efficient engine plants in Mexico rather than in the United States—even though there was *no* apparent cost advantage to producing in Mexico. In fact, some 60 to 80 percent of the output of these new engine plants will be shipped back to the United States for assembly into "American" automobiles. (See Chart I in Appendix.)

Similar requirements exist in Brazil, where, as of 1978, auto producers had given commitments for the export of over $5 billion in automotive products as a precondition for their relatively unrestricted operation in the Brazilian market. U.S. firms had committed to over $2 billion of these automotive exports from Brazil, according to research carried out for the United Nations Center for Transnational Enterprises. (See Chart II in Appendix.) More recent export commitments to the Brazilian government now total over $55 billion, with the largest shares being held by auto and machinery producers.

Local content requirements on auto imports are mandated by dozens of countries. Under Mexico's Auto Decree of 1977, local content requirements were set initially at 50 perrcent per vehicle, but were scheduled to rise to 80 percent by 1981. The result of the decree will be reduced sales of U.S. auto parts to Mexico, reduced U.S. sales of vehicles to Mexican free zone areas, and increased shipments of Mexican parts to the U.S. In Brazil, local content requirements are linked with export requirements. Companies with an export program approved by the Brazilian government are treated more favorably and are allowed a lower percentage of local content requirement. Government-approved programs are allowed percentages ranging from 70 percent to 95 percent for cars, trucks, and other vehicles. Manufacturers without an approved export program are required to manufacture vehicles with a 95 percent local content requirement. Imports of parts and components from Latin American Free-Trade Area nations that assure reciprocal terms to Brazil are treated as being of Brazilian origin as long as they constitute less than 5 percent of value of the content of the vehicle. Brazil's performance requirements discriminate against other developing countries as well as against U.S. investors and exporters.

The direct problem of Japan, of course, demands special attention. While the U.S. maintains an open market to the Japanese, Japan has erected an array of non-tariff barriers to restrict the number of American vehicles that can be sold in Japan. These barriers include commodity taxes, inspection systems, and limits on marketing networks. Such non-tariff barriers can nearly double the price of American cars sold in Japan.

It hardly needs to be restated that the Japanese are not nearly so reticent about automobile exports as they are regarding automobile imports into their country. Japan's global auto exports have risen from 194,000 in 1965 to over six million units in 1981. Indeed, even as U.S. auto producers were falling into depression—such as during the period following the Iranian revolution of 1979—the Japanese continued to expand their sales into this country. In fact, the Japanese industry was operating very high levels of mandatory overtime production, with their overtime output roughly equally the shortfall in American domestic production. Paradoxically, in 1980, just when U.S. unemployment was reaching its worst levels, the Japanese auto manufacturers were announcing further additions to their productive capacity, bringing them to the level of the number one automobile producer in the world.

On the issue of responsible and responsive trade policy in our strongly interdependent world economy, the Japanese have proven to be skillful negotiators whose hallmark is appearing to make concessions while actually giving up nothing at all. When the Japanese were finally brought to accept "voluntary" limits on their exports in the United States in the spring of 1981, they agreed to levels of exports designed according to Japanese industry definitions which resulted in no reduction in Japanese sales to the U.S. market. With the further reduction in auto sales following record high interest rates and the still deepening recession, the Japanese are once again in that favorite position of having their cake and eating it too, with the appearance of export limitations and the reality of strengthened market shares and undamaged profitability.

Japanese purchases of U.S made auto parts follow a similar script. In September 1980, a highly publized Japanese buying mission for auto parts came to the United States to meet with parts industry firms and with all of the concerned unions to express their good intentions to double and triple Japanese purchases of U.S. parts both for original equipment in Japanese cars (particularly for those sold in the United States) and for the burgeoning replacement parts market. The results are instructive: Japanese purchases in 1981 of U.S.-made auto parts actually declined in real terms over 1980 levels. Conversely, during the last decade, the value of U.S. auto parts imports (from countries other than Canada) has risen by 24 percent annually and has been predicted to rise to 30 percent of total U.S. parts sales by 1985 and to 39 percent by 1990. A hard look at the statics is much more informative than tales of good intentions.

As Deputy Under Secretary of International Affairs in the Department of Labor from 1977 through 1979, I worked with others in the executive branch and Congress to encourage the Japanese to build manufacturing facilities where their markets were—here in the United States. The Japanese government and auto producers continued to receive such encouragement to build here long after 1979. Nevertheless, the largest Japanese auto makers chose to supply the U.S. market by running their Japanese plants on mandatory overtime. Further, they chose to artifically maintain an undervalued yen, now at 250+ yen per dollar, thus gaining an unfair advantage of nearly 40 percent compared to 1978 exchange rates, and continued to expand their market share in the U.S.

AMERICA'S RESPONSE

It makes no sense for the U.S. to maintain virtually unlimited access to our markets while our access to the markets of other countries is restricted, at a cost of hundreds of thousands of American jobs. We believe that S. 2300 addresses this problem in a manner that is equitable both to foreign producers and American consumers. While leaving Japanese producers with full access to the U.S. market, this legislation would aid the American economy by shifting the bulk of the production of those vehicles to American workers and communities. In effect, it would allow consumers to choose which car they want to buy, but would insure at the same time their purchases would benefit the American economy. It would mean well over one million new jobs to the U.S. economy as a whole, including 200,00 auto jobs and 500,000 supplier jobs.

The legislation would prevent American companies from shifting completely to foreign production to supply the domestic market. The bill also addresses the unfair competition faced by U.S. parts suppliers in the replacement parts market, calling in the Secretary of Transportation and the Federal Trade Commission to conduct a one-year investigation on the policies and practices that currently favor foreign-made parts. Based on this information, the Secretary and the Federal Trade Commission will then be able to recommend the appropriate legislation and/or administrative action needed to remedy this problem.

Throughout the debate over S. 2300, opponents have claimed higher car prices and a trade war will follow in the wake of the bill's enactment. The spectre of skyrocketing auto prices arises from the misconception that price competition will somehow vanish. Recent history proves otherwise. Since restraints on Japanese imports began in early 1981, the prices U.S. cars (taking into account the variety of rebate programs available) has risen at the low rate of about 3 percent annually. In contrast, the nations' inflation average has been 8.7 percent. As for the future, price competition should thrive rather than fade as foreign companies such as Honda and Nissan continue to seek a bigger share of the U.S. market . . . but this time, with U.S. built cars.

Opponents of S. 2300 and its House version (H.R. 5133) also sound the alarm of retaliation and the eruption of a vicious trade war if such legislation is adopted. But a look at this bill in the real life context in which it will operate supports a very different appraisal of its impact. Under the standards of H.R. 5133, as revised by the House Energy and Commerce Committee, Volkswagen and AMC/Renault already meet the content requirements of H.R. 5133; Honda is close behind. In fact, only two major importers fall dramatically short of the revised bill's standards. They are the Japanese firms Toyota and Nissan. Japan, however, has not launched trade wars against the 31 other countries around the world with restrictions on auto imports much stronger than those contained in S. 2300 or H.R. 5133, and it is unrealistic to think that the Japanese would retaliate by abandoning the U.S. car market—the largest in the world—or by freezing out the importation of U.S. goods on which Japan now relies. These goods generally represent products which Japan cannot make for itself. Alternative sources for these items are found in countries like Australia, Argentina and Brazil which have in place tighter auto restrictions than those now proposed in this bill. Furthermore Toyota and Nissan have seen fit to build assembly operations in countries where their cars face import restrictions, including Australia, Brazil, Italy and, most recently England. Japanese investment, rather than retaliation, has been the norm.

Taking these circumstances into account, along with the fact that Japan has been reaping the benefit of an auto trade surplus with the U.S. that amounted to $13 billion in 1981, the likelihood of retaliation from them is minimal. And there is no prospect of retaliation from Europe, whose auto companies are not restricted in any way by the standards of H.R. 5133 now before the House. In short, the issue of retaliation is a red herring.

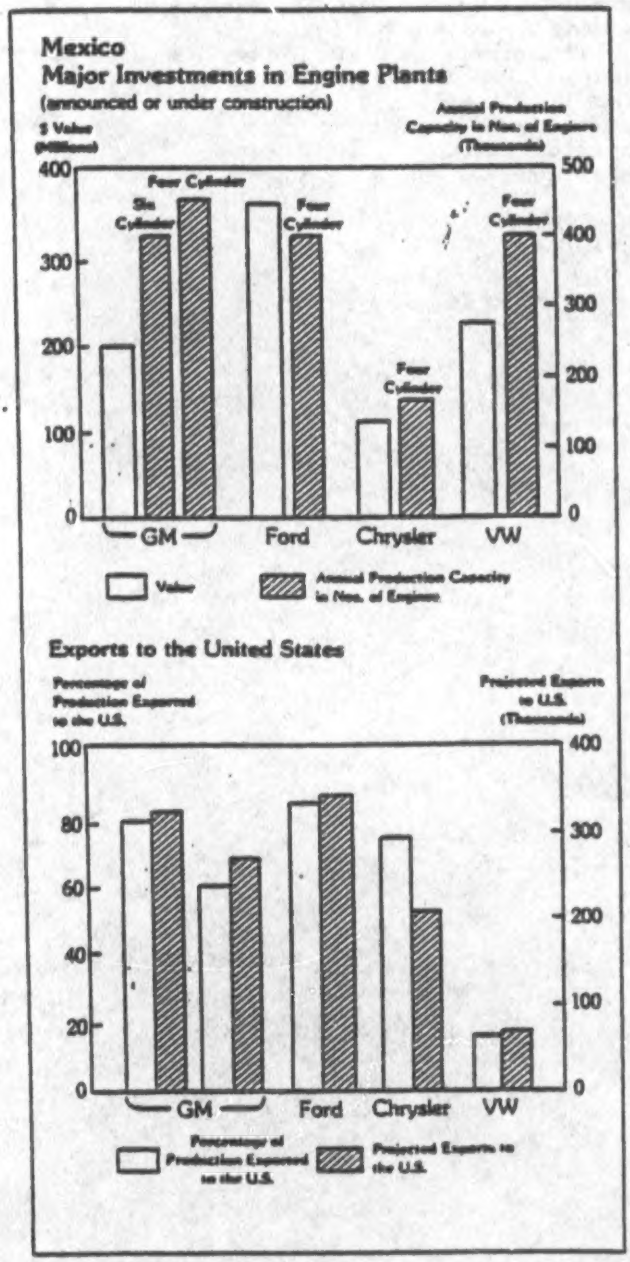
In summary, we believe that the bill represents a sound and reasonable approach. Indeed, it is critical to the survival of the American auto industry. S.2300 is not designed to introduce a novel or unsettling concept into world trade relationships. It simply realigns the U.S. in a position that is on par with numerous othe countries which implemented auto restrictions some time ago. By helping millions of workers keep their jobs, this legislation will greatly strengthen the American economy.

APPENDIX—MEMBERS OF THE COALITION OF AUTOMOTIVE COMPONENT AND SUPPLY WORKERS

Aluminum Workers International Union
International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers, and Helpers
United Brotherhood of Carpenters and Joiners of America
United Cement, Lime and Gypsum Workers International Union
International Chemical Workers Union
Amalgamated Clothing and Textile Workers of America
Communications Workers of America
International Brotherhood of Electrical Workers
International Union of Electrical, Radio and Machine Workers
American Flint Glass Workers Union
United Furniture Workers of America
United Glass and Ceramic Workers of North America
Industrial Union Department, AFL-CIO
Allied Industrial Workers of America
International Association of Bridge, Structural and Ornamental Ironworkers
International Association of Machinists and Aerospace Workers
International Molders and Allied Workers Union
Mechanics Educational Society of America
Oil, Chemical and Atomic Workers

International Brotherhood of Painters and Allied Trades
United Paperworkers International Union
Pattern Makers League of North America
United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada
International Brotherhood of Pottery and Allied Workers
Retail, Wholesale and Department Store Union
United Rubber, Cork, Linoleum and Plastic Workers of America
American Federation of State, County & Municipal Employees
Service Employees International Union
Sheetmetal Workers International Association
United Steelworkers of America
Upholsterers International Union of North America

Chart I



Source: "Performance Requirements: A Study of the Incidence and Impact of Trade-Related Performance Requirements, and an Analysis of International Law," Labor-Industry Coalition

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CHART II. BRAZILIAN BEFIEX AUTOMOTIVE PROGRAM EXPORT AGREEMENTS

[Millions of U.S. dollars]

Firm	Export commitment	Period
Ford/Philco	$1,355.4	1974–83
Volkswagen	1,069.0	1974–82
Chrysler	314.5	1974–83
Mercedes Benz	500.0	1975–84
Fiat	550.0	1976–85
Fabrica Nacional De Motores	400.0	1975–84
Saab-Scania	415.4	1976–65
General Motors	1,009.5	1976–86
Total	5,613.8	

Source: Ronald E. Muller and David Moore "Brazilian Bargaining Power Success in Befiex Export Promotion Program with the Transnational Automotive Industry," report prepared for the United Nations Centre on Transnational Corporations, New York (January 1978).

STATEMENT OF U.S. COUNCIL FOR AN OPEN WORLD ECONOMY, INC.

(The U.S. Council for an Open World Economy is a private, non-profit, public-interest organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any private interest.)

S. 2300 (deceptively named the Fair Practices in Automotive Products Act) would establish minimum domestic-content requirements for the sale of automobiles in the United States. Designed by the automobile workers union to regain for unemployed U.S. auto workers the jobs they have lost in recent years as foreign manufacturers won unprecedentedly large shares of the massively changed U.S. automobile market, this bill would be abysmally counterproductive. It would also pose severe, costly administrative burdens for U.S. auto makers, foreign auto makers, and U.S. government officials entrusted with enforcement of such legislation. The terms I used in opposing the original "reciprocity" bill introduced this year in the Senate are no less apt (in fact, more so) in describing domestic-content legislation: such legislation would be a cross between a Pandora's box and a can of worms—a cross which the American economy, and the U.S. auto industry itself, should not have to bear.

To the extent that it significantly reduced U.S. auto imports, such legislation would restore jobs to some unemployed U.S. auto workers (and some workers in related U.S. industries) at the cost of a significant number of good jobs likely to be lost in other sectors of the U.S. labor force (including many in the auto workers union itself). The offsetting loss of jobs would result from the loss of U.S. exports in the wake of foreign emulation of such domestic-content practices, retaliation against such U.S. measures by countries directly affected by these U.S. import curbs, and reduction of foreign purchasing power as world trade and income declined. Such legislation would be in violation of the international code of fair competition (the General Agreement on Tariffs and Trade), and would impair the efforts the United States is making to gain and sustain freer access to major foreign markets (including automobile-producing countries) for goods in which our economy excels. Many foreign countries would feel even less inhibition against establishing or magnifying domestic-content or other import curbs, and could be even more resistant to U.S. efforts to get existed restrictions reduced.

Such legislation, establishing the highest domestic-content quotas (as high as 90 percent) for auto producers with the largest sales in the U.S. market, would seriously obstruct efforts the U.S. auto makers are making (and should not cease making) to market automobiles of the highest quality and at the lowest possible price. It would obstruct these efforts by seriously curtailing the flexibility of these manufacturers in their choice of sources of supply for the multiplicity of parts that go into production of automobiles. Although the ingredients of domestic content include advertising and other items that are not "blue collar" production costs, thus tending to lessen the domestic-content requirement for American-made parts, this does not redeem this kind of legislation.

Aside from the effects which economic recession may exert, the bill's potential for restoring U.S. auto jobs is significantly restricted by rising automation in the auto industry, and in the short run (the period of severe hardship for unemployed and under-employed U.S. auto workers) by the considerable time required for construction of U.S. production lines by foreign automobile manufacturers who decide to produce automobiles in the United States. These factors only amplify the many drawbacks of legislation like S. 2300 and, in turn, amplify the need to seek more-productive, more-prudent ways to help the U.S. auto industry and both the auto workers still making automobiles and those who are not.

In view of the emulatory and retaliatory implications of such legislation for U.S. exports of a wide range of manufactured goods in which this country has a highly rewarding export business, the long-term tendency would be for the United States to become less and less an exporter of manufactures, and proportionately more of an exporter of agricultural and mineral products, as increasing numbers of countries followed our example in setting domestic-content rules. It would be unrealistic to assume that automobiles would be the alpha and omega of U.S. recourse to such practices. Other sectors of our economy would be likely to seek similarly privileges. Instead of joining the list of countries resorting to such practices, we need a strategy aimed at removing domestic-content rules wherever they exist.

Those who support bills like S. 2300 on the thesis that, in the face of substantial barriers impeding U.S. access to foreign markets, America needs to act tough (that sparkling buzzword some people find so appealing) are neglecting the enlightened, productive and responsible ways a country like ours should act tough both in the foreign-policy and domestic-policy dimensions of the current trade challenge. Those who say we should not be "patsy" to aggressive foreign designs on the U.S. market—and that we should restrict our own imports to prove our determination for action—are themselves "patsy" to highly regressive schemes to reveal our resolve. A country that responds to intense foreign competition, and to objectionable barriers impeding U.S. access abroad, primarily by socking its own consumers with import curbs is surely shooting itself in the foot. A protectionist ploy intended as an anti-protectionist tactic to induce freer trade abroad is an exercise in self-deception. The U.S. response to protectionist proliferation around the world should not be to sink into that regrettable rut but rather to raise the world's sights with a radically progressive strategy aimed at programming totally free trade and totally fair trade in concert with whatever countries care to participate in such a charter. Our Council—our Council alone—has urged such an initiative. The reciprocity our country seeks should be the ultimate in progressive reciprocity (free trade itself), not regressive reciprocity that ratchets trade restrictions upward and trade downward. The required strategy is outlined in presentations our Council has made to other Congressional committees, including the Finance and Foreign Relations committees of the Senate.

The U.S. labor movement, concerned over the United States losing its impressive shares of world markets in industrial goods and possibly becoming predominantly an exporter of crude materials, should be opposed to bills like S. 2300. The fact that the U.S. labor movement (not just the auto workers) supports and indeed campaigns for this bill—legislation threatening heavy costs to the nation as a whole and to many sectors of the labor movement's own constituency—suggests that the American labor movement (with too few exceptions) may be sinking into a policy bankruptcy that impairs, not only the nation's enlightened self-interest, but also the credibility of the labor movement's concern for the national interest and the wisdom of its positions on other issues.

When the adverse implications of domestic-content legislation for U.S. inflation, productivity, trade policy and overall foreign policy are considered, it is hard to believe that the prime mover behind this bill is the same labor movement that has done so much—often ahead of other sectors of our society—to advance the nation's best interests. As an old friend of the American labor movement, I continue to expect great things from it. There is much that labor can and should do to prod the government, the business establishment and the public at large to face up to the nation's most pressing needs with deliberate speed and intelligent ingenuity, and in a manner consistent with the naiton's highest ideals. With this bill, labor is letting the nation down.

Strong criticism should also be directed at the Administration for not having a coherent domestic redevelopment, full-employment strategy which could have raised the sights of the auto workers, the labor movement in general and the nation as a whole to enlightened policies and objectives that would have diverted energies away from radically regressive propositions such as the policy abomination advocated in this bill.

No less deserving of criticism is the "liberal trade" movement itself for not campaigning for such a redevelopment strategy, which is indispensable, not only to the free-trade strategy that our Council alone has urged, but to the less far-reaching, "freer trade" goals with which the "liberal trade" movement as a whole is currently identified.

Statement of Richard W. Wilcke, President, Council for a Competitive Economy

Thank you, Senator Packwood, for the opportunity to present the views of the Council for a Competitive Economy before this Committee. My name is Richard W. Wilcke, and I am the president of the Council, a national membership organization representing over 1,000 members from all over the country sharing a common commitment to the promotion of a free, open and competitive economy.

The so-called "domestic content" measure that is now being considered by this committee is the latest, very dangerous scheme for protecting the U.S. automobile industry and the jobs of United Auto Workers (UAW). The objective of the measure is to maintain jobs by either limiting automobile imports or by forcing foreign companies to buy parts and build assembly plants in the United States. The UAW, and its business allies in the auto and auto-supplier industries, have sold this plan as a political solution by which Americans can have both their Toyotas and their jobs.

Of course, any law that interferes with the free flow of goods and capital, and rights of producers and consumers—as these "domestic content" requirements would surely do—is protectionist and counterproductive. The impact of this legislation, if passed, would be far different from that hoped for by its sponsors. Wherever such laws have been tried (Great Britian, Argentina, Australia) they have been dismal failures. They restrict free trade, which means that American export industries would face likely reduced demand and retaliation. They would create an uncompetitive U.S. auto industry and cost the American consumer billions of dollars. Harbridge House, the respected consulting firm, estimates that the proposed legislation could cost as much as $3200 additional for each Japanese car sold! And as for jobs, there are currently 7,000 imported car dealers in this country, employing some 165,000 workers. A 50 percent drop in imported car sales—very likely under this legislation—would close some 2,000 of these businesses and idle more than 65,000—albeit not UAW members.

This kind of protectionist legislation from the United States, leader of the so-called "free world" and the largest industrialized nation, would lead the world into a devastating trade war. The bills would violate the principle of GATT and would surely invoke a worldwide response in retaliation. Even the idea that such restrictions would force Japanese firms to build new plants in the U.S. is wrong (in addition to being immoral).

We urge the members of the Senate Commerce, Science and Transportation Committee to reject this protectionist measure and allow consumers to "vote with their purchases for the products which best serve their needs.

Thank you again for the opportunity to present the views of the Council for a Competitive Economy.

Statement of David M. Zinn, Chairman, Board of Directors, American International Automobile Dealers Association

I am David Zinn, Chairman of the Board of the American International Automobile Dealers Association. I am from Miami, Florida, where with my sons and nephews, we own and operate five imported automobile dealerships selling Toyota, Datsun, Mazda, Isuzu and Volvo automobiles, all imports.

As Chairman of AIADA, I represent the interests of 7,000 imported automobile dealers and their 165,000 employees, all of whom depend on the free exchange of goods between nations for their livelihood and the security of their very substantial investments. It is these investments that I place emphasis on at this time.

I have recently had the privilege of testifying before the Trade Subcommittee of the House Ways and Means Committee. During these hearings, some 856 pages of input were recorded reflecting concerns for retaliation that might be taken by our trading partners that would affect jobs in various sectors of our economy, that would affect farmers and their ability to export, that would affect production workers in airplane factories, dock workers, truck drivers, electronic equipment workers, etc. I am here to speak on behalf of the small business man, the little guy who will not only lose his job, but will lose his business and lifesavings in one catastrophic stroke of the legislative pen. I am not talking about a "fairy tale," I am talking about thousands of auto dealers like myself who started with a few thousand dollars and worked very hard and very long hours, who went for a few years barely eking out in an existence for themselves and their families and finally broke into a profit column. Now, they were beginning to make a little money and began growing and hiring more people. The factory coaxes the dealer to build a new facility that would make a better appearance and set forth a proper image of the product. The dealer does this at great cost for land and construction of a new building along with a new mortgage to pay and additional monthly payments for equipment in the service department and other fixtures for the parts department, shelving bins, and handling equipment. Now the dealer has a new facility—beautiful and functional in every respect, a service department that is "state of the art," a large stock of replacement parts and—yes, let's not forget, a huge debt to service to pay for all of this.

But, not to worry, the factory representatives and the participating bankers sat down and we worked out pro-formas and all you have to do is sell a specified number of cars and you will have a break-even figure and what ever you go over this number will be profit and everyone agrees that the numbers are reasonable and certainly achievable, and away we go. The business grows, more people are hired. New jobs are created and more improvements and expansions are made on an ongoing basis. Most of the profits are sunk right back into the business. Now enter the voluntary restraint agreement by the Japanese government and, suddenly, we cannot get the number of cars we projected to receive, we suddenly find ourselves with less than the break-even amount. We now find ourselves in over our heads in a situation we have no control over.

Where did we go wrong? What have we done to have this harsh punishment inflicted upon us?

Currently, my dealerships employ 275 people with an annual payroll of $6,565,000—all of this from a meager beginning just sixteen years ago when I began my great American Dream with $7,000 of my own and $15,000 I borrowed and a line of credit provided by a local banker who listened to my plea and had confidence in me and a father who consigned a blanket guarantee pledging to pay if I did not.

That is how I started: $22,000 in capital, a bank to finance my cars, and two employees. I am a man who worked, achieved and lived the dream that makes this country the greatest nation in the world. This is the land that thousands flock to with nothing but hopes and dreams, fleeing from oppression, misery and despair. This great country is where immigrants like my parents arrived, with nothing but the clothes on their backs and went to work and made a future for themselves by great effort and sacrifice and achievement. I cannot believe that this great nation would legislate a bill that would destroy so many small businessmen like myself unless the legislators were unaware of the impact this bill would have on people like me.

The imposition of the voluntary restraints of export of Japanese cars has already put severe curtailments on the availability of product to dealerships. The passage of S 2300 would reduce this availability by 60 percent. Could S. 2300 likewise legislate a 60 percent reduction in my rent or mortgage payment, in my insurance, utility bills or other expenses? What about employees? Is it the purpose of this bill to cause me to lay off 60 percent of my staff? If I did, could my business survive with such a drastic curtailment?

I am just one of 7,000 imported car dealers, most of whom can relate similar stories of how it began for us in this industry. Multiply the impact of this legislation's impact on me by the other imported car dealers and I believe that between 75,000 and 90,000 American workers at these imported dealerships will become unemployed.

I further believe that between 2,000 and 2,500 of these dealerships would close permanently—wiping out the substantial life savings of thousands of small businessmen and the jobs of thousands of their employees with one stroke of the legislative pen and, gentlemen, that is not the American Way of handling a situation such as the one faced by this distinguished committee.

You cannot mend a broken leg by taking two aspirins. They may relieve the pain temporarily, but the bone must be set before it will mend properly. This bill reeks of aspirin laced with cyanide—it will do far more harm than the good intentions the label on the bottle lead you to believe.

This legislation will result in the direct loss of thousands of jobs and indirect loss of thousands more. Any consequent return to work by Detroit's UAW workers would not match the number of Americans this bill put on the streets.

Mr. Fraser has referred to this as "jobs bill," and I believe he may be correct. It would take 85,000 of our American employees and put back a maximum of 46,000 of his people and that is just not right.

The problem of the auto industry cannot be solved by shutting down imports. There will never be a return to the 1940s and 1950s methods of making cars. Some of these unemployed Detroit workers will never work at those jobs again.

That is a fact that must be faced. New ways and methods must be found to promote business-union-government cooperation instead of confrontation. This bill is just not the answer.

This legislation would result in fewer imported cars that would be sold at a higher per unit cost; net effect: The consumer has to pay more. Since our prices would go up, this would trigger an instant raise on the part of the domestic manufacturers, since the stabilizing efffect imports have on domestic prices would now be gone.

Result: The consumer must pay more. If the American consumer has to pay more for his automobile, he has less to spend on medical care, movies, eating out, clothing, et cetera.

Harbridge House, a respected research firm, has just completed a study that projects an increase in the average price of a car of $3,200 as a consequence of this measure and the quotas already in place.

There is no justificiation for spreading the unfortunate plight of the auto workers of Detroit through the rest of the United States and into the houses of the employees in imported car agencies, dock workers, aircraft employees, office equipment employees, electronic equipment workers, et cetera; all of whom would be subjected to retaliatory restrictions abroad. Better management, greater efficiency, increased productivity, lower interest rates and more affordable car prices are the answer, not protectionism.

Thank you.

STATEMENT OF THE AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.

As the national trade association representing the major domestic manufacturers of commercial and business aircraft, jet engines, helicopters and related components and equipment, the Aerospace Industries Association of America, Inc. (AIA) appreciates this opportunity to express our deep concern with S. 2300, the domestic content legislation recently considered by the Committee. We commend the Committee, and particularly the Chairman, for their efforts to ensure that this legislative proposal receives careful and in-depth examination by the Congress in view of what we perceive to be its far-reaching and adverse consequences.

S. 2300, which would require automobile manufacturers with substantial sales in the U.S. market to use high levels of "North American content" (i.e., U.S. labor and United States or Canadian parts), poses a number of serious problems. The local content requirements would, in effect, operate like quotas. Such restrictions would not guarantee that U.S.-produced automobiles would become price-competitive with Japanese automobiles; if anything, the imposition of domestic content requirements would eliminate a principal cost-cutting device—the use of foreign-supplied parts. Additionally, the restrictions detailed in S. 2300 would isolate the U.S. market from international competition, thus removing certain restraints on pricing and wage levels.

The job-creating potential of this legislation is also questionable. A 1981 study of S. 2300 by the Congressional Research Service predicted that higher automobile prices resulting from enforcement of domestic content requirements will further dampen demand, and hence, suppress new job creation. At best, the Council of Economic Advisers estimates that net job gain—excluding potential retaliatory effects on our exports—would be under 50,000 jobs at a cost to the economy of up to $100,000 per job. Furthermore, the proposed legislation would have a devastating impact on the approximately 165,000 American jobs dependent upon auto imports.

AIA is opposed to measures which direct the procurement of goods and services to protect domestic industries. AIA member companies have had long-term, relevant experience with government-directed procurement both as a competitor of foreign companies who are wholly or partially owned by their respective governments, and also with many international customers who are government-owned or managed. We firmly believe that our products are competitive any where in the world, although trade distorting practices—such as government-directed procurement—pose serious problems for our privately held aerospace companies. AIA therefore opposes efforts within the Congress to protect specific domestic industries and feels that proposals such as S. 2300 will have serious negative economic and trade consequences for a broad spectrum of U.S. companies who are engaged in international trade.

As written, S. 2300 would place the United States in violation of several provisions of the General Agreement on Tariffs and Trade, and consequently, would enable other signatory countries to bring formal complaints under Article XXIII. United States Trade Representative William Brock has noted that such complaints are more than likely to be upheld, with the probability that the United States will be required to abolish its local content restrictions. Failure to so comply could result in retaliation by other GATT countries against a wide range of American exports.

AIA's member companies are particularly concerned with the potential for such a confrontation. Aerospace exports totaled over $17 billion in 1981, and the aerospace industries. Due to the nature of government influence in our international competitions and the high cost and visibility of our products, we feel that the aerospace industry would be particularly susceptible to retaliatory actions should the U.S. impose domestic content requirements as set out in S. 2300. Other successful U.S. exporters would also be likely targets for reciprocal protectionist actions if this legislation is approved, entailing subsequent losses in employment and tax revenues.

If enacted, S. 2300 would make the United States the first major auto producing nation to adopt domestic content requirements—a situation inconsistent with our international obligations, and irreparably damaging to the Administration's current efforts to open foreign markets more fully. Rejecting the free trade policy that has enjoyed bi-partisan support will ultimately cost the United States jobs, sales, markets and economic growth—in all industrial sectors.

In light of the negative consequences that can be expected to flow from this legislation, we urge you to oppose these and similar protectionist proposals now pending before the Congress.

STATEMENT OF MICHAEL A. SAMUELS

I am Michael A. Samuels, vice president, international, of the United States Chamber of Commerce.

The United States Chamber of Commerce is opposed to the Fair Trade in Automotive Products Act (S. 2300) because of its negative implications for U.S. economic and trade policies. This is not due to what has been termed a "knee jerk free trade" reflex. It is a position arrived at through a careful consideration of the interests of the Chamber membership and the U.S. economy as a whole.

Declining production and employment are not merely academic considerations to our members who are vitally concerned with policies to restore these factors of economic growth. If the legislation before the subcommittee held out any reasonable prospect for boosting long-term growth in a key industry, our objections would be limited to its trade policy implications. As it is, however, the legislation is offered as a panacea to economic and trade problems. We believe it will cause more damage than benefits on both counts.

A great deal of analysis on the pros and cons of the bill has been presented to the subcommittee during these hearings in addition to what was provided in the recent hearings on the House bill in the Trade Subcommittee of Ways and Means. Rather than run the risk of repeating in detail what may have been presented already, I will just highlight the major arguments that form the basis of the Chamber's concern with the proposal and which provide a consistent thread in the testimony in these and other Congressional hearings. First, the trade aspects which must be primary in your consideration.

Implications for GATT.—Regardless of any other factors, a key consideration must be that passage of the bill could trigger a trade war. Because it violates GATT provisions prohibiting domestic content requirements, foreign nations could legally demand compensation in the form of U.S. tariff concessions. Moreover, it is likely to provoke retaliation, for example, possibly setting off a series of self-defeating beggar-thy-neighbor policies around the world.

Foreign trade barriers.—Some propose this legislation in response to what is a very serious problem, one which does require urgent attention—the proliferation of trade barriers in foreign markets against the exports of U.S. high technology industries. This is indeed an urgent problem, but S. 2300 is the wrong solution. As foreign countries endeavor to build up their own technologies, there is a temptation to discourage import competition for the favored industries. Japan's policies toward its semiconductor industry are a case in point. U.S. semiconductor products have only partial access to the rich Japanese market while Japanese products enjoy huge sales in the United States. Inasmuch as export markets, with the economies of scale they entail, are vital for the optimum development of sophisticated technologies, such barriers must be eliminated.

Market access legislation.—The reciprocity legislation pending in Congress would help strengthen our ability to redress unfair bilateral trade practices. Congress should encourage the Administration to enforce U.S. trade laws and rights under international agreements and should support the Administration particularly in its ongoing effort to reduce Japanese trade barriers of special relevance to American exporters. The Chamber recognizes that foreign restrictions hurt American exports and workers. Unless the United States is prepared to back its negotiating position with action, these departures are likely to persist.

Competitiveness problems.—Foreign barriers are not the only problem for U.S. industrial competitiveness in world markets. Domestic obstacles also contribute to our competitiveness problems. These include: unnecessary regulatory burdens, for example under the Foreign Corrupt Practices Act, the imposition of export controls in ways that undermine our reputation as a reliable supplier; the high cost of capital; high labor costs; an inadequate supply of labor with the most needed skills; the high cost and limited availability of export financing; anemic productivity growth; high inflation until recently and generally weak marketing efforts. In addition, and one of the greatest obstacles to U.S. export competitiveness today, is the high value of the dollar relative to foreign currencies, particularly the undervalued yen.

It is toward these areas that national policy should be directed as part of a comprehensive economic recovery effort. Trade barriers lend themselves to a speedier resolution than most of the other factors and provide a more realistic and positive target in U.S.-Japanese relations than domestic content.

Consumer demand.—The bill does not address the chief cause of the auto industry's problem—weak consumer demand—the solution to which rests in across-the-board economic recovery. In 1981, total U.S. sales of imported and domestic cars fell to 8.5 million from 11.3 million in 1978. True, the imported segment increased from 17.6 percent in 1978 to 27.3 percent in 1981. But the ability of imports to maintain and expand their market share in this period reflects the shift in consumer preference toward lower priced, fuel-efficient models, a group presently dominated by imports. We do not believe that Japanese exporters in particular possess a built-in advantage over U.S. producers that assures them a forever increasing share of our market. The shift to economic models has been accentuated by the general economic downturn, and heightened consumer concern with cost. Again, this factor tends to favor the imports which have specialized in lower-priced models. Over one-half of the total annual United States sales of the three leading Japanese car makers are in their lowest priced series. Even so, figures for 1982 reveal that sales of imported cars also have continued the decline that first became evident in 1981, underscoring the fact that the collapse in consumer demand is the core problem for the entire industry.

Unfortunately, there are no shortcuts to economc recovery. Domestic content requirements will do nothing to bring down interest rates, nor increase net investment or net growth in the economy.

This may be cold comfort to our unemployed at this time, but the only real solution to unemployment is real growth. As for the auto industry, Congress must realize that U.S. automobile sales are likely to rise as interest rates decline significantly. In fact, in response to lower interest rates and the dealers' rebates made possibly by them, November 1982 U.S.-made auto sales were up 24 percent over the same month in 1981. The comparative October figures showed an increase of 17 percent.

The avowed purpose of the legislaiton is to encourage major auto exporters to the United States to produce in this country. Some are already doing so because of rational business decisions, not government coercion. Surely it is reasonable to suppose that more would do so as the domestic industry modernizes and market conditions for auto investment improve.

As noted, with recovery, there is likely to be a huge backlog of demand in the U.S. automarket. Also, the U.S. auto industry is improving its competitiveness through a massive capital investment program.

Domestic industry's revitalization program.—Another important failing of the legislation is that it ignores the domestic industry's efforts to increase its competitiveness. Indeed, it assumes that the U.S. can never compete effectively with imports and needs permanent trade protection—which we must be perfectly clear, is exactly what domestic content legislation is. This assumption that we cannot compete is a dangerous and groundless one, when the realities of our long-term trade and economic policy strategy is considered.

The U.S. economy has a number of strong sectors, impacted by strong trade performance, including chemicals, agriculture, capital equipment and high technology industries generally. By the same token, modernization should restore some of our more traditional industries, such as autos and steel, to an important role in world markets.

In assessing U.S. trade performance, its worth noting that (here we should have some figures on U.S. trade performance in high technology, capital equipment and services).

But even within those U.S. industries not normally thought of as "high technology" industries, there are nevertheless pockets of technological superiority and U.S. comparative advantage. For instance, the U.S. apparel industry, ten or fifteen years ago, was regarded as moribund and unable to cope with an ever-growing tide of imports. However, the industry tackled its basic problems with innovation and increased productivity. Today, the industry, while still facing massive import competition, is in vigorous condition. Certain segments even enjoy a surplus on the trade account. Employment has stabilized with exports increasing from one-half a billion dollars in 1978 to over $1 billion in 1981. Of the New York Stock Exchange's top performing companies in 1981, 5 were from the apparel industry.

Meanwhile, the U.S. auto industry has responded positively and forcefully to the need to develop the highest level of technological performance. As Philip Caldwell, Ford Motor Company's Board Chairman, stated in recent testimony before the Trade Subcommittee of Ways and Means, the industry is investing $80 billion in its current revitalization program. This is the largest private sector effort ever undertaken on behalf of an individual industry. The domestic content approach to industrial production evades the critical issue of encouraging the innovation and modernization in all industries. Particularly within the American environment, where there is little of the close coordination between business and government policy that is found in some countries, protection fosters industrial inefficiency and stagnation, not industrial strength and vigor.

Other concerns with domestic content legislation can be summarized briefly.

Price effects.—The domestic content requirements in Mexico and Australia have resulted in auto prices far above world market levels. These and other examples only serve to reinforce the conclusions of the Congressional Budget Office and others that U.S. auto prices would increase by at least 10 percent if the legislation were enacted.

Employment effects.—Finally, any new jobs created by domestic content requirements would have to be offset against job losses in other sectors of the economy affected by the reactions to this legislation. The domestic content bill is promoted as a job-creating program yet it would injure the very industries where employment growth has been most evident. Between 1977 and 1980, four out of five new manufacturing jobs cacme from exporting industries. One in three farm acres is used to grow food for export while one in seven manufacturing jobs depends on exports. These figures illustrate the central truth that is violated by domestic content policies. Namely, that we are in the era of the global economy and that the ability to compete in world markets is the measure of our economic performance. National policies should therefore be clearly directed to enhancing the performance of our most competitive industries, that is, the exporters, and to encouraging disadvantaged industries to build up their competitive strengths.

Summary and conclusions.—Domestic content legislation does not address the chief cause of declining sales in the U.S. automotive industry, weak consumer demand. The solution lies in across-the-board economic recovery.

Neither does domestic content ignore growing U.S. strength in a number of important industries and projects for revitalization through modernization in others, including autos.

The bill ignores the U.S. industry's efforts to revitalize its competitiveness, implying that it needs permanent trade protection.

The bill would increase U.S. auto prices and any jobs created would have to be offset against job losses in the U.S. auto import trade and in export industries injured by retaliation.

GATT prohibits domestic content requirements and permits foreign countries to seek extensive compensation in the form of tariff concessions. Particularly vulnerable would be U.S. agricultural products and sectors of high technology manufacturers.

Enactment of market access legislation would go far to address certain bilateral trade practices that are partly addressed in the bill. The U.S. must increase its efforts to induce foreign countries, especially Japan, to reduce trade barriers against American exports.

The best prospect for American industry lies in the recovery of the entire economy. Government policies to reduce interest rates, check inflation, stimulate capital investment and lower foreign trade barriers are the tools to meet foreign competition.

STATEMENT OF RICHARD W. ROBERTS, PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL

The National Foreign Trade Council is an association of over 600 U.S. companies engaged in foreign trade and investments. Our membership, which represents more than half of U.S. exports of manufactured goods and services, is deeply concerned with the adverse effects which S. 2300, the "Fair Practices in Automotive Products Act," would have on trade between the United States and foreign countries.

While we share with proponents of the bill a desire for a healthier auto industry and a sharp expansion in auto industry jobs, we believe that insulating the industry from foreign competition will not achieve these objectives; indeed, the consequences of this protectionist legislation will be to damage the American economy and the auto industry in these ways:

Overall, employment gains in the auto industry will be offset by job losses in other sectors of the economy;

The American auto industry will be unable to utilize the loeest cost source of supply, thereby increasing the price of U.S.-made automobiles and placing the American auto industry at a competitive disadvantage in the international marketplace;

The American economy as a whole will suffer, not only because of the inflationary impact of higher auto prices, but even more importantly because adoption of domestic content legislation would severely damage trade relations with our principal trading partners, trigger retaliation against U.S. exports and encourage similar "buy national" strategies by the principal trading nations. The inevitable result will be a reduction in U.S. exports and in domestic employment in export-related industries.

Studies by the Congressional Budget office and other Federal agencies and private organizations have documented the effect of the bill on the cost of automobiles and on employment, both in the automotive manufacturing and automotive import sectors. Since the National Foreign Trade Council is primarily concerned with the international impact of the bill, I will focus on the consequences of the act for U.S. foreign trade and investment.

A basic premise of proposals to insulate segments of the U.S. economy from world competition is that the United States is a self-contained economic unit of such power and diversity that it can, at will, unilaterally reduce trade with other nations to achieve domestic economic objectives, without significant costs to our own country. A corollary is that other nations will simply be forced to accept these American initiatives because they lack the will or the ability to take counter measures.

This premise, of an economic "fortress America," is both unrealistic and dangerous today for two reasons. First, the United States is a part of an interdependent world economy. Our major trading partners purchase billions of dollars in U.S. goods and services, but with rare exceptions they are under no compulsion to do so; substitute products and services are generally available on the world market. Moreover, the economies of most of our major trading partners are afflicted by exceptionally high unemployment and slow growth, which has placed increasing pressures on governments to intervene to protect domestic industries. Thus our major trading partners have both the power to impose effective sanctions against U.S. exports in retaliation for protectionist actions by the United States, and in many cases strong political and economic incentives to do so. The difficulties encountered by U.S. negotiators at the recent GATT Ministerial meetings in Geneva in advancing proposals to remove, or indeed even study additional non-tariff trade barriers, touches a raw nerve both in the industrialized and the developing world.

Second, the United States has for over 30 years been a leader among nations in supporting a free and open international trading system. Our country was one of the architects of the GATT in 1947. More recently in the Tokyo Round of multilateral trade negotiations and in the GATT Ministerial meetings, the United States reaffirmed its commitment to the reduction of governmental intervention in trade and to the preservation of open markets. Without United States leadership, the GATT Ministerial meetings might well have ended without a reaffirmation of GATT support for a free and open international trading system. Thus, action by Congress to foreclose a major sector of the U.S. economy—automotive products—from international competition would not only violate GATT rules but would serve notice on the world that the United States had decided to reduce its support of the international trading system which has sustained the growth of world trade for decades.

Let me now address more specifically the consequences of S. 2300 for trade relations with other nations. A fundamental problem of S. 2300 is that it directly violates the GATT rules. Article III, Sections 1 and 5, of the GATT together prohibit the parties from adopting laws which, to protect domestic production, require ". . . directly or indirectly, that any specified amount or proportion of any product . . . must be supplied from domestic sources." And S. 2300 is incompatible with Article XI, which prohibits, with exceptions not relevant here, the imposition of quantitative restrictions on imports.

In the event that S. 2300 retains a provision permitting Canadian automotive products to qualify as "local content," thereby extending special treatment to Canada, the proposal would also violate the "most favored nation" provision of the GATT, which basically requires that a trade benefit extended to one GATT member be extended to all GATT members. If S. 2300 should contain a provision defining local content in terms of U.S. input only, such a provision would violate both the GATT and the United State-Canada Automotive Products Agreement under which each government agreed to avoid actions that could frustrate the objectives of an open and integrated automotive market.

The proposed local content bill which is before you is aimed primarily at Japanese auto imports. There has been much speculation as to what the Japaneses response would be. One option for Japan would be to accept the American edict, and increase automotive production in the United States. A second option for Japan would be to file a formal complaint in the GATT seeking compensation from the United States. Since the U.S. local content law would surely be held to violate GATT rules, Japan would be authorized by the GATT to seek compensation or to institute retaliatory restrictions on designated imports from the United States.

Alternatively, Japan might elect to take more direct action either by directing purchases to alternative sources of supply or by imposing tariffs or quotas on U.S. goods without GATT sanction, or by establishing non-tariff barriers to the entry of U.S. products. Whatever the form the retaliation took, whether within or outside the GATT rules, the result will be a loss of U.S. exports and of export-related U.S. jobs.

While the Japanese response could have very significant consequences for United States-Japanese trade relations, it would, in our view, be a grave mistake to assess the bill solely in terms of Japan. Our major concern is that the imposition of a local content law in the United States, protecting a major sector from foreign competition, will encourage the proliferation of similar restrictions abroad, both by national and local governments. Local content laws and "buy national" practices abroad are already a pervasive impediment to U.S. exports. For example, under the Canadian Foreign Investment Review Act, U.S. companies have been restricted from investment in Canada unless they agree to purchase unreasonable quantities of Canadian components. Other examples abound. Among leading U.S. exports identified by the Administration which might be affected by a resurgence of trade barriers are aircraft, office equipment, electrical components, corn, wheat and soybeans.

While it is difficult to estimate the number of jobs which will be lost as a result of a fresh wave of foreign protectionist restrictions, it is virtually certain to be greater than any hypothetical employment gain S. 2300 might bring about. Because each $1 billion in exports accounts for over 25,000 jobs, the loss of even $4 billion in exports would cost the United States 100,000 jobs.

If the United States builds a fence around a major industry through a local content law, in direct violation of GATT, is there any reason why our trading partners should not do likewise? Indeed, it is most significant that at the GATT Ministerial meeting it was not possible to develop a consensus that performance requirements (and local content laws are a form of performance requirement) should even be the subject of study. This is a strong indication that our trading partners will utilize them if it becomes necessary to do so for economic survival.

Moreover, S. 2300 would directly undercut administration efforts to encourage trade liberalization measures by other nations. The U.S. Trade Representative is presently engaged in negotiations with Canada for the purpose, among others, of reducing "buy Canadian" conditions imposed by the Canadian government on foreign investors. Similarly, U.S. negotiators are working with Japanese government officials to reduce barriers to imports. And at the GATT Ministerial meeting in November, the United States sought, and will surely continue to seek, to liberalize world trade in agricultural commodities, in the services industry and in high technology. The imposition by the United States of a barrier to international trade in automobiles will undermine our negotiating position in bilateral and multilateral negotiations, defeating United States efforts to obtain reductions in other nations' trade barriers.

We are also concerned that the adoption of a local content law for automobiles will lead to pressures on the U.S. Congress for additional Federal "local content" laws and for "Buy American" or "Buy Local" laws by State legislatures applicable to import-vulnerable American industries. If these laws proliferate, reduced competition, higher prices and more trade conflicts with foreign nations will follow, leading to higher levels of retaliation and, ultimately, trade stagnation.

To sum up, enactment of S. 2300 would encourage protectionist forces everywhere and open the way to a surge of trade restrictions that would restrain growth and increase unemployment throughout the world, not least in our own country.

We strongly urge that Congress defeat S. 2300. Thank you.

STATEMENT OF WAYNE NELSON, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. Chairman and members of the committee, the National Association of Wheat Growers appreciates this opportunity to present its views on pending automotive "local content" legislation. I am Wayne Nelson, a wheat farmer from Winner, South Dakota and president of the NAWG.

Mr. Chairman, the legislation under discussion here today does not represent a positive step towards solving the economic ills of our nation. It is a punitive measure, and strikes out against important U.S. trading partners without contributing to the jobs-generating capacity of our own economy, or to overall strengthening of economic activity.

Furthermore, the bill represents a serious threat to the nation's eroding trade balance. The positive balance of trade in the agricultural sector over the past decade has been an important counter-force to the negative influence of rapidly expanding oil and other imports which have dramatically escalated in value. It is more than reasonable to expect that our most prominent agricultural commodity importers, especially Japan and the European Community, would take restrictive trade actions in response to the import restrictions embodied in this domestic content bill. The most likely targets of such action would be agricultural products, and this is a risk we cannot afford to take. Already U.S. agricultural exports are on the decline, as world economic growth has faltered, unable to absorb U.S. commodities available for export. This is the first year, in fact, that U.S. wheat exports will not increase over the past decade, and, in all likelihood, export levels will decline compared to last year.

In such an atmosphere of stagnant world demand for our products, it is all the more important to nurture our traditional trading relationships. Japan is the third largest importer of U.S. wheat, after the Peoples Republic of China and the Soviet Union. The Japanese purchased approximately $450 million of U.S. wheat in 1981/82. And, importantly, the Japanese market is a consistent and reliable one, thriving from long established ties with U.S. wheat trade officials. Carefully planned market development activities in Japan over a period of years have produced these results, and these promotional projects have been sponsored jointly by U.S. wheat farmers and the U.S. government. It is important to recognize the positive impact of this wheat trade on the nation's overall economy, and in so doing realize the potential for damage which could be done if legislation such as S. 2300 is enacted.

Apart from the immediate economic implications of the bill, the protectionist principle it represents would take on new vitality in U.S. trade policy. The U.S. agricultural community has traditionally upheld the free trade principle, and has supported national policies and diplomatic initiatives which have sought to reduce international trade barriers. The recent GATT meetings in Geneva and the OECD trade ministers meetings in Brussels have been attempts to create a more cooperative spirit among member nations. The GATT process, obviously, has many weaknesses, and is slow to bring about changes in trading behavior, but it must not be undone. It must be strengthened. I believe domestic content legislation will work against the GATT process of conciliation, and will erode the U.S. position in world trade.

Thank you very much.

TUBEXPRESS SYSTEMS, INC.,
North Bergen, N.J., September 22, 1982.

Senator BOB PACKWOOD,
Committee on Commerce, Science, and Transportation,
U.S. Senate, Washington, D.C.

DEAR SENATOR PACKWOOD: The proposed "Domestic-Content" Legislation is ill-advised and would achieve the exact opposite of that which is intended. To make this issue clear, please consider the following.

If a manufacturer brought out a vastly superior mouse trap, would you favor legislation restricting his sales so as not to injure other mouse trap manufacturers? Of course not! And yet this is exactly what restrictive trade legislation does. It prevents some manufacturers from selling their goods because it may injure other manufacturers who would find it difficult to compete. The fact that some of these manufacturers may be in other countries does not change the argument.

Our Constitution specifically bans trade restrictions and tariffs between the States and, as a direct consequence, the United States grew to be the most prosperous economic trading area with the highest standard of living in the world. European countries, after World War II, recognized this when they formed the Common Market the real purpose of which was to remove trade restrictions between countries and today the Common Market has reached a level of prosperity equalling our own. The terms of the unconditional surrender imposed upon Japan after World War II removed trade restrictions and today Japan is our largest trading partner.

Notice an interesting consequence of free trade between countries. Though up to World War II France and Germany fought major wars every generation or so, the Common Market put an end to this. Another war between France and Germany is as unthinkable as a war between the United States and Canada and for precisely the same reason; we are trading partners. The issue is clear: It is either trade or war and there is no middle ground. If we consider the possibility of another war today, the only adversary that comes to mind is Soviet Russia, the one country with which trade is severely restricted by Government.

Yes, it is true that trade restrictions may provide short term benefits for specific industries but only at the expense of the economy as a whole. The famous Smoot-Halley Tariff is now generally credited as one of the principal causes which led to the depression of the 1930's. Let's not repeat that mistake.

I would appreciate if my letter could be read before your Committee and made part of the Congressional Record.

Sincerely,

WILLIAM VANDERSTEEL,
President.

DELEGATION OF THE COMMISSION OF THE EUROPEAN COMMUNITIES,
Washington, D.C., December 17, 1982.

Hon. BOB PACKWOOD,
Chairman, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: I write to say that the European Community is gravely concerned about the "local content" provisions of the "Fair Practices in Automobile Products Act" (H.R. 5133) which was adopted by the House of Representatives on December 15, 1982.

Our concern centres on four points:

(a) The provisions of the Bill if enacted into law would be inconsistent with U.S. international obligations.

In particular, Article III:1 of the GATT sets out the general principle that quantitative regulations should not be applied to imported products so as to afford protection to domestic production, while Article III:5 specifically prohibits domestic content regulations. The enactment of H.R. 5133 would represent a direct violation of this provision.

Article XI:1 of the GATT prohibits the imposition of restrictions other than duties, taxes or charges on the importation of goods. The import prohibitions provided for under Section 6 of H.R. 5133 would violate this provision.

(b) This Bill would significantly impede, if not render impossible, efforts by U.S. and other automobile makers to integrate production on a worldwide basis with a view to increasing efficiency and is consequently likely to defeat these plans which are important for the full competitiveness of our respective automobile industries.

(c) The protectionist effect of the "local content" provisions of such legislation would furthermore be a clear breach of the political commitments entered into by the United States together with its trading partners in the recent GATT Ministerial meeting.

(d) Furthermore, the result of the meeting on December 10 between the U.S. Secretary of State and the President of the Commission of the European Communities put in hand an examination of the practicalities of means to defuse the current agricultural problems and the general political tensions between the European Community and the United States. A first such meeting is being held in mid-January. It would be unfortunate if any legislative action now were to put these prospects in risk.

Yours sincerely,

ROY DENMAN.

CHAMBER OF COMMERCE OF THE UNITED STATES,
COMMITTEE ON CANADA-UNITED STATES RELATIONS,
UNITED STATES SECTION,
Washington, D.C., December 17, 1982.

Hon. BOB PACKWOOD,
Chairman, Committee on Commerce, Science, and Transportation,
U.S. Senate, Washington, D.C.

DEAR SENATOR PACKWOOD: The Canada-United States Committee of the Chamber of Commerce of the United States and Canadian Chamber of Commerce held its one-hundredth meeting in Ottawa October 17-19. Pending domestic content legislation was considered to be such an important issue that a joint statement of concern was passed. For the U.S. Chamber of Commerce, this statement basically reaffirms existing policy.

This statement of concern is based on three premises: That there is pressure in certain quarters in the United States and Canada to enact domestic content legislation, most particularly in the automotive sector, in order to protect domestic markets; That the GATT prohibits domestic content requirements and permits foreign countries to seek extensive compensation in the form of tariff concessions; That the best prospects for Canada and the United States lie in the recovery of their respective economies through constructive policies.

Given these premises, our two Chambers urge both the U.S. and Canadian governments to refrain from enacting domestic content legislation that will discourage international trade and cause harm to Canadian-American economic relations, including the possible undermining or cancellation of the United States-Canada Automotive Products Trade Agreement.

At the same time, both Chambers urge both governments to actively work with other governments both bilaterally and through such multilateral fora as the GATT to discourage domestic content practices worldwide. For their part, the two organizations pledge to assist in this process wherever possible, through their own contacts, with other governments and other business organizations.

We appreciate this opportunity to advise you of our serious concern about domestic content legislation and are hopeful that this statement will play a constructive role in current deliberations. We offer our assistance in any way you think appropriate. The Canadian Chamber of Commerce is submitting an identical statement of concern to top-level Canadian officials.

Sincerely yours,

WILLIAM G. PHILLIPS,
Chairman.

Boeing Commercial Airplane Co.,
Rosslyn, Va., January 6, 1983.

Hon. **Bob Packwood,**
Chairman, Committee on Commerce, Science, and Transportation,
U.S. Senate, Washington, D.C.

Dear Mr. Chairman: During your recent hearings December 16 and 17, 1982, on the domestic content bill, your staff made an inquiry on the Japanese Government's requirement for offset as a condition for sale of Boeing commercial jet transports to Japanese airlines. I advised them that the Boeing Company is not aware of any requirement for reciprocal purchases or offsets ever being imposed as a condition of Japanese Government approval for any commercial aircraft purchase from Boeing (or to our knowledge, any other manufacturer).

Boeing was aware of several public statements made by union officials that a large percentage (40%) of our commercial jets are produced overseas. It was our understanding that this statement was made by Mr. Douglas Fraser, President, International Union, United Automobile, Aerospace and Agricultural Implement Workers of America. We wrote Mr. Fraser to clarify the situation and a series of letters resulted from that initial contact. I have enclosed the correspondence between the Boeing Company and Mr. Fraser for your review. I believe this will clarify to the best of our knowledge the Japanese situation on commercial jet transport offset.

Sincerely,

R. E. McWilliams,
Director.

Enclosures.

International Union, United Automobile,
Aerospace and Agricultural
Implement Workers of America—UAW,
Detroit, Mich., September 8, 1982.

Mr. **James H. Morrison,**
Corporate Director, Labor Relations,
Boeing Co., Seattle Wash.

Dear Mr. Morrison: This is in response to your letter of September 3.

I have never made the statement that 40% of the Boeing commercial jets were produced overseas because I know better. One of the better arguments for free trade is the fact that in the main airline companies all over the world use Boeing and McDonnell Douglas aircraft.

The point I have made is that it is my understanding that in the contract which you entered into with Japan for the 767, there is a 40% Japanese content. If this is not the case, I wish you would inform me, as I read it in several publications.

I might add that this is not a criticism of Boeing, but rather an argument that, while Japan resists content legislation as it relates to automobiles on the basis of a so-called principle, they have negotiated a content requirement for certain aircraft, not only with Boeing but with Lockheed and McDonnell Douglas.

Sincerely,

Douglas A. Fraser
President.

Federal Trade Commission,
Washington, D.C., February 3, 1983.

Hon. **Bob Packwood,**
Chairman, Committee on Commerce, Science, and Transportation,
U.S. Senate, Washington, D.C.

Dear Mr. Chairman: Thank you for the opportunity to comment on S. 2300, the "Fair Practices in Automotive Products Act," which contains two titles dealing with separate aspects of the automobile industry.

Title I—Domestic Content Requirements for Motor Vehicles.—This title, which would be administered by the Secretary of Transportation, would require manufacturers of automobiles and light trucks who sell more than 100,000 vehicles per year in the United States to have a minimum domestic content based on a progressive formula keyed to sales volume per year and model years. Model year 1983 vehicles sold in the United States would be required to have a minimum domestic content conforming to a sliding scale of 8.3% for manufacturers who sell between 100,000 and 150,000 vehicles in the United States, to 30% for those selling more than 500,000 vehicles. The formula has corresponding volume criteria for model year 1984 ranging from 16.7 to 60%. For all model years after 1984, the domestic content requirement based on the same sales volume levels extends from 25 to 90%.

The bill defines "domestic part," "domestic content ratio," "model year" and other terms used in the bill. It also makes provision for the security of information furnished by vehicle manufacturers, annual reports by the Secretary, and enforcement sanctions. The Secretary would be authorized to prescribe necessary rules and regulations.

While a number of technical questions are presented by title I, our comment will be confined to its probable impact on the nation's economy. S. 2300 is protectionist legislation designed to reduce motor vehicle imports and, as such, it marks a departure from the principles of free trade and free market economics. Almost inevitably the result will be reduced competition in the motor vehicle industry and higher consumer prices.

American car makers having moving rapidly toward smaller "world cars" which are very similar to those produced abroad, and United States companies are already importing engines, transmissions, and other components. Confronted with the enormous cost of downsizing the American car, the need to conserve capital resources, and the lower production costs of many foreign companies, the United States auto industry is reportedly planning even greater reliance on foreign sources for major components. The enactment of legislation requiring vehicles sold in the United States to be 90 percent "American-made" by 1985 would aggravate the demands upon capital resources now faced by the United States automobile industry and would likely increase car prices.

Another potential effect of S. 2300 would be a substantial reduction in automobile imports and a probable increase in automobile prices. Those foreign manufacturers that could not meet the domestic content requirements prescribed by the bill would cease importing cars into the United States. Others would reduce the volume of their imports in order to take advantage of the sliding domestic content scale contained in the bill. In either case the cost to consumers could be substantial. A 1980 Commission staff analysis[1] premised on reducing foreign car imports from 2.4 million to 1.7 million units per year estimated that prices would increase by between $527 and $838 per unit, producing a total consumer price increase of from $1.9 to $3.6 billion per year. The enactment of S. 2300 would result in even greater import restrictions than those assumed in this analysis, and prices to the consumer could be correspondingly higher.

S. 2300 would, of course, also seriously affect foreign car manufacturers. They would be forced either to reduce imports into the United States or to increase dramatically their investment in additional production facilities here. Even foreign firms which already have United States plants in operation or under construction would not be able to meet the domestic content requirements without additional capital investments. A 90 percent American content standard would require almost total production in United States facilities. Even in the unlikely event that they could meet the time schedules set by this bill, the ability and willingness of foreign manufacturers to make such investments in plants here, is conjectural. The loss of lower wages and production costs now enjoyed by many foreign automakers would be a substantial disincentive to such investment, as would the add cost resulting from diseconomies of small scale production.

The smaller foreign manufacturers are unlikely to be able to mount the effort necessary to remain in the United States market.

In sum, the sharp decline in imports called for by Title I would result in less competition, higher production costs for both domestic and foreign manufacturers, and consequent higher automobile prices to consumers.

Title II—Unfair and Deceptive Practices By Vehicle Manufacturers.—Title II would require an automobile manufacturer, at the request of a parts manufacturer: (1) to determine whether a domestically produced part satisfies reasonable standards established by the automaker as a replacement part, and, if so, to notify its affiliated dealers of that determination; or (2) to furnish a letter to such dealers stating that the parts manufacturer shall assume liability for damages resulting from consumers' use of that supplier's parts. Refusal by the automobile manufacturer to comply with parts manufacturer's request for such a determination or to furnish the required letter would be unlawful.

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[1] Staff comment of the FTC before the U.S. International Commission, TA-201-44, October 6, 1980.

Title II appears to have the commendable purpose of prohibiting a manufacturer of automobiles from unjustifiably conditioning its warranty upon the use of replacement parts made by such manufacturers, and of providing dealers and consumers more complete and accurate information as a basis for choosing replacement parts. For a number of reasons, however, the Commission is unable to support Title II. This title would place upon the automobile manufacturer the considerable burden of testing parts to determine whether they satisfy the manufacturer's standards. Considering the large number of parts involved, each of which may be produced by more than one manufacturer, these costs could be substantial.

The need for Title II is questionable. Section 102(c) of the Magnuson-Moss Warranty—Federal Trade Commission Improvement Act (15 U.S.C. § 2302) already prohibits a manufacturer from conditioning its warranty responsibility upon the use of a specific branded part, unless the manufacturer can establish that such a part is required for the proper functioning of its product. Also, many replacement parts manufacturers' guarantee that their products equal or exceed manufacturers requirements, and there is a growing use by automobile dealers of replacement parts by independent manufacturers. Furthermore, Title II does not apply to parts not made in the United States—this appears to be inconsistent with the apparent purpose of this title of stimulating competition in the automobile parts aftermarket.

Based on the foregoing considerations, the Commission believes that the problems which this bill is intended to remedy do not justify the costs that the bill would impose upon the consumer, the automobile manufacturing industry, and the federal government.

By the direction of the Commission.

CAROL M. THOMAS,
Secretary.

SEPARATE STATEMENT OF COMMISSIONER PERTSCHUK CONCERNING S. 2300

I joined the Commission's comment on H.R. 5133 in April 1982, which offered essentially the same views as those contained in the Commission's letter concerning S. 2300. Upon further reflection about this difficult problem, I continue to believe that requiring minimum "domestic content" of automobiles manufactured abroad, while in the short run interest of auto workers and manufacturers, is not in the long run public interest of our nation.

On the other hand, I do not believe we should take the position that "principles of free trade and free market economics" dictate that the right policy for our country is that no industry every deserves even limited, temporary protection. Similarly, I reject the proposition that strategic intervention by government to support domestic industry by providing advantages similar to those provided by foreign governments to their own industry is never warranted. Virtually every modern industrial nation—certainly including Japan—has taken steps to nurture fledgling industries as well as to protect the health of developed industries during periods of transition. We are, in fact, undergoing transition in the role of the automobile and steel industries, and, looking ahead a decade or so, I believe we can identify three goals: 1) to the extent the automobile industry plays a smaller role in our economy than in the past, the government should intervene to prevent tremendous dislocation for the workers and communities involved, including, particularly, a substantial commitment to retraining; 2) the American auto industry should emerge more efficient and more competitive with increased quality in its products and increased worker productivity; and 3) the American consumer should not have been forced to suffer significantly higher prices and loss of access to foreign products during the transition period, as a result of government intervention on behalf of the industry.

Accomplishing these goals will require sacrifice on the part of manufacturers, labor, and consumers. It will probably require government measures which provide advantages to our own domestic industry, but the burden of change should fall principally on the affected industry. However, it is too simple to say that domestic content requirements are bad because they conflict with free trade. The issue is too complex and too vital a sector of our economy is affected to rest with such a conclusion.

O